

Louisville Gas and Electric Company
Case No. 2018-00295
Forecasted Test Period Filing Requirements
(Forecasted Test Period 12ME 4/30/20; Base Period 12ME 12/31/18)

Filing Requirement
807 KAR 5:001 Section 16(7)(p)
Sponsoring Witness: Christopher M. Garrett

Description of Filing Requirement:

A copy of the utility's annual report on Form 10-K as filed with the Securities and Exchange Commission for the most recent two (2) years, and any Form 8-K issued during the past two (2) years, and any Form 10-Q issued during the past six (6) quarters.

Response:

The below-listed documents are attached:

- September 15, 2016 Form 8-K
- September 30, 2016 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- November 29, 2016 Form 8-K
- December 31, 2016 Form 10-K Annual Report to the Securities and Exchange Commission
- March 31, 2017 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- April 19, 2017 Form 8-K
- June 1, 2017 Form 8-K
- June 26, 2017 Form 8-K
- June 30, 2017 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- July 6, 2017 Form 8-K
- September 30, 2017 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- November 14, 2017 Form 8-K
- January 16, 2018 Form 8-K
- January 30, 2018 Form 8-K
- December 31, 2017 Form 10-K Annual Report to the Securities and Exchange Commission
- March 26, 2018 Form 8-K
- March 31, 2018 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- June 30, 2018 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- September 19, 2018 Form 8-K

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: September 15, 2016 (period: September 15, 2016)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 15, 2016

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 – Financial Information

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

and

Section 8 - Other Events

Item 8.01 Other Events

On September 15, 2016, the County of Trimble, Kentucky (the "Issuer") issued \$125,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) (the "Issuer Bonds") on behalf of Louisville Gas and Electric Company ("LG&E"). The proceeds of the Issuer Bonds are being used to pay and discharge \$83,335,000 in outstanding principal amount of Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) and \$41,665,000 in outstanding principal amount of Pollution Control Revenue Bonds, 2002 Series A (Louisville Gas and Electric Company Project), each previously issued by the Issuer on behalf of LG&E to refinance certain pollution control facilities (the "Project") owned by LG&E. The Issuer Bonds mature on September 1, 2044, and are subject to mandatory purchase on any date on which the Issuer Bonds are converted to a different interest rate mode, as described below.

The Issuer Bonds were issued under an Indenture of Trust, dated as of September 1, 2016 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee (the "Issuer Bond Trustee"). The Issuer has loaned the proceeds of the Issuer Bonds to LG&E pursuant to a Loan Agreement dated as of September 1, 2016 between LG&E and the Issuer (the "Loan Agreement"). Pursuant to the Loan Agreement, LG&E is obligated to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal or redemption price and interest on the Issuer Bonds.

To secure its obligations to make payments with respect to the Issuer Bonds, LG&E has delivered to the Issuer Bond Trustee its First Mortgage Bonds, Collateral Series 2016TCA (the "Company Mortgage Bonds"), in each case, issued pursuant to LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented by Supplemental Indenture No. 5 ("Supplemental Indenture No. 5") dated as of September 1, 2016 (the "2010 Indenture"). The principal amount, maturity date and interest rate provisions on the Company Mortgage Bonds correspond to the principal amount and maturity date of, and the interest rates on, the Issuer Bonds. So long as LG&E makes the required payments under the Loan Agreement, it will not be obligated to make additional payments on the Company Mortgage Bonds.

The Issuer Bonds initially were issued bearing interest at a weekly rate as determined by a remarketing agent in accordance with the Indenture taking into account then prevailing market conditions. The method of determining the interest rate on the Issuer Bonds may be converted from time to time at LG&E's option in accordance with the Indenture to a daily rate, a weekly rate, a semi-annual rate, an annual rate, a long term rate, rates based on a London Interbank Offered (LIBOR) rate, a term rate based on the Securities Industry and Financial Markets Association Municipal Swap Index or an agreed flexible rate determined by a remarketing agent based on prevailing market conditions.

On any business day while the Issuer Bonds bear interest at the weekly rate, the Issuer Bonds are subject to optional redemption at the option of the Issuer upon the written direction of LG&E, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. The optional redemption provisions may be changed in connection with a conversion to a different interest rate mode. The Issuer Bonds are also subject to extraordinary optional redemption at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by LG&E of an option under the Loan Agreement to prepay the loan upon the occurrence of certain events, including the imposition of unreasonable burdens or excessive liabilities upon LG&E with respect to the Project, specified damage to or destruction of the Project, changes in the economic availability of materials or supplies necessary for the efficient operation of the generating station served by the Project, condemnation of the Project, certain changes in law rendering the Loan Agreement void or unenforceable or an order requiring cessation of a substantial part of LG&E's operations at the generating

station served by the Project that would prevent LG&E from carrying on its normal operations at such station for a period of six months. The Issuer Bonds are also subject to mandatory redemption upon a determination that the interest on the Issuer Bonds would be included in the gross income of the owners thereof for federal income tax purposes. Any such mandatory redemption would be at a redemption price of 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date.

The Loan Agreement, Supplemental Indenture No. 5 and the Officer's Certificate under the 2010 Indenture relating to the Company Mortgage Bonds are filed with this report as Exhibits 4(a), 4(b) and 4(c), respectively.

Section 9 – Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description
4(a)	Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky.
4(b)	Supplemental Indenture No. 5, dated as of September 1, 2016, of Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee.
4(c)	Officer's Certificate, dated September 15, 2016, pursuant to Section 201 and Section 301 of the Indenture, dated as of October 1, 2010, of Louisville Gas and Electric Company to The Bank of New York Mellon.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: September 15, 2016

COUNTY OF TRIMBLE, KENTUCKY

And

LOUISVILLE GAS AND ELECTRIC COMPANY

A Kentucky Corporation

* * * * *

LOAN AGREEMENT

* * * * *

Dated as September 1, 2016

* * * * *

NOTICE: The interest of the County of Trimble, Kentucky, in and to this Loan Agreement has been assigned to U.S. Bank National Association, as Trustee, under the Indenture of Trust dated as of September 1, 2016

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LOAN AGREEMENT

This **LOAN AGREEMENT** (this “**Agreement**”), dated as of September 1, 2016, by and between the **COUNTY OF TRIMBLE, KENTUCKY** (the “**Issuer**”), a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky, and **LOUISVILLE GAS AND ELECTRIC COMPANY**, a corporation organized and existing under the laws of Kentucky (the “**Company**”);

PREAMBLE

WHEREAS, all capitalized terms not otherwise defined in this preamble shall have the meanings set forth in ARTICLE I hereof, unless the context or use clearly indicates another meaning or intent; and

WHEREAS, pursuant to the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder; and

WHEREAS, the Issuer is authorized pursuant to the Act to issue negotiable bonds and lend the proceeds from the sale of such bonds to a utility company to finance and refinance the acquisition of “pollution control facilities,” as defined by the Act; and

WHEREAS, the Issuer is further authorized pursuant to the Act to enter into a loan agreement, which may include such provisions as the Issuer shall deem appropriate to effect the securing of a financing or refinancing undertaken in respect of Pollution Control Facilities, including the securing of a letter of credit, other credit facilities, or collateral; and

WHEREAS, the Act further provides that title to the Pollution Control Facilities shall not be acquired by the Issuer in the case of a loan transaction; and

WHEREAS, the Issuer previously issued the Refunded 2000 Series A Bonds for the purpose of financing and refinancing the costs of the Project constituting certain Pollution Control Facilities located within Trimble County, Kentucky at the Company’s Trimble County Generating Station consisting of air and water pollution control facilities. The Issuer entered into the 2000 Series A Indenture with The Bank of New York, as Trustee, Paying Agent, and Bond Registrar thereunder and it is provided in ARTICLE VIII of the 2000 Series A Indenture that the Refunded 2000 Series A Bonds, or any of them, shall be deemed to have been paid within the meaning of such 2000 Series A Indenture when there shall have been irrevocably deposited with the Prior 2000 Series A Trustee, either cash or Governmental Obligations, as defined in the 2000 Series A Indenture, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to pay the principal and the applicable redemption premium, if any, on the Refunded 2000 Series A Bonds plus interest thereon to the date of payment and discharge thereof (whether at maturity, upon redemption, or otherwise), plus sufficient moneys to pay all necessary and proper fees, compensation, and expenses of the Prior 2000 Series A Trustee, authenticating agent, bond registrar, and any paying agent; together with irrevocable instructions to call and redeem the Refunded 2000 Series A Bonds; and

WHEREAS, the Issuer previously issued the Refunded 2002 Series A Bonds for the purpose of financing and refinancing the costs of the Project constituting certain Pollution Control Facilities located within Trimble County, Kentucky at the Company's Trimble County Generating Station consisting of air and water pollution control facilities. The Issuer entered into the 2002 Series A Indenture with U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas), as Trustee, Paying Agent, and Bond Registrar thereunder and it is provided in ARTICLE VIII of the 2002 Series A Indenture that the Refunded 2002 Series A Bonds, or any of them, shall be deemed to have been paid within the meaning of such 2002 Series A Indenture when there shall have been irrevocably deposited with the Prior 2002 Series A Trustee, either cash or Governmental Obligations, as defined in the 2002 Series A Indenture, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to pay the principal and the applicable redemption premium, if any, on the Refunded 2002 Series A Bonds plus interest thereon to the date of payment and discharge thereof (whether at maturity, upon redemption, or otherwise), plus sufficient moneys to pay all necessary and proper fees, compensation, and expenses of the Prior 2002 Series A Trustee, authenticating agent, bond registrar, and any paying agent; together with irrevocable instructions to call and redeem the Refunded 2002 Series A Bonds; and

WHEREAS, the Company has heretofore, by the issuance of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds, financed or refinanced all or a portion of the qualified costs of the construction and acquisition of certain air and water pollution control facilities and facilities functionally related and subordinate to such facilities to serve the Trimble County Generating Station of the Company, which facilities constitute the Project, as defined in the Indenture and as described in **Exhibit A** hereto, which Project is located within the corporate boundaries of the Issuer and consists of certain air and water pollution control facilities and facilities functionally related and subordinate to such facilities in furtherance of the regulations of the Department for Environmental Protection of the Energy and Environmental Cabinet of the Commonwealth of Kentucky and which Project qualifies for financing and refinancing within the meaning of the Act; and

WHEREAS, (i) construction of the Project began before September 26, 1985; completion of the Project occurred after September 26, 1985 and original use of the Project commenced with the Company, (ii) a binding contract to incur significant (i.e., 10% of the then reasonably anticipated cost of construction of the Project) expenditures for construction of the Project was entered into before September 26, 1985 and some of such expenditures were incurred on or after September 26, 1985 and (iii) with respect to both (i) and (ii) above, the Project was described in an inducement resolution or other comparable approval adopted by the Fiscal Court of the Issuer before September 26, 1985 (i.e., on February 29, 1980); and

WHEREAS, the Project has been completed and placed in operation in whole or in part and has contributed to the control, containment, reduction, and abatement of atmospheric pollution and contamination and water pollution in the Commonwealth of Kentucky; and

WHEREAS, in connection with the issuance of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds, the right was reserved to the Issuer, upon direction by the Company, to redeem the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds in advance of their respective maturities; and the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds are by their terms each currently subject to redemption at the option of the Issuer in whole or in part at certain specified dates, at the price of 100% of their respective principal amounts thereof and accrued interest, if any, to their respective redemption dates, as provided in the 2000 Series A

Indenture and the 2002 Series A Indenture, respectively; and the immediate redemption and discharge of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds will result in benefits to the general public and the Company and should be carried out forthwith in the public interest by the issuance by the Issuer of the 2016 Series A Bonds, and the application of the proceeds of the 2016 Series A Bonds, together with funds to be provided by the Company, for, among other things, the refunding, payment, and discharge of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds on or before the 90th day from the Issuance Date of the 2016 Series A Bonds; and

WHEREAS, pursuant to and in accordance with the provisions of the Act and an Ordinance duly adopted by the Fiscal Court of the Issuer on May 16, 2016, and in furtherance of the purposes of the Act, Issuer proposes to issue, sell, and deliver its 2016 Series A Bonds, the proceeds of which will be lent to the Company to cause the respective outstanding principal amounts of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds to be refunded, paid, and discharged in full on or before the 90th day from the Issuance Date; and

WHEREAS, the 2016 Series A Bonds are to be issued under and pursuant to and are to be secured by the Indenture of Trust dated as of September 1, 2016 by and between the Issuer and U.S. Bank National Association, as trustee (the “**Trustee**”);

NOW, THEREFORE for and in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree each with the other, as follows:

ARTICLE I DEFINITIONS

Section 1.1. Definitions. The terms used in this Loan Agreement, except as otherwise defined herein and unless the context requires otherwise, have the meanings set forth in the Indenture. All accounting terms not otherwise defined in the Indenture or herein have the meanings assigned to them in accordance with generally accepted accounting principles then in effect.

ARTICLE II REPRESENTATIONS, WARRANTIES, AND COVENANTS

Section 2.1. Representations, Warranties, And Covenants By The Issuer. The Issuer represents, warrants, and covenants that:

(a) The Issuer is a public body corporate and politic duly created and existing as a county and de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky and, pursuant to the Act, the Issuer has the power and duty to issue the 2016 Series A Bonds, to enter into this Agreement, the Indenture, and the transactions contemplated hereby, and to carry out its obligations hereunder and thereunder. The Issuer is not in default under or in violation of the Constitution or any of the laws of the Commonwealth of Kentucky relevant to the issuance of the 2016 Series A Bonds or the consummation of the transactions contemplated hereby or in connection with such issuance, and has been duly authorized to issue the 2016 Series A Bonds and to execute and deliver this Agreement and the Indenture. The Issuer agrees that it will do or cause to be done in timely manner all things necessary to preserve and keep in full force and effect its existence, and to carry out the terms of this Agreement.

(b) The Issuer agrees to loan funds derived from the sale of the 2016 Series A Bonds to the Company to provide for the refunding, payment, and discharge of the respective

outstanding principal amounts of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds and to the end that air and water pollution be abated and controlled at the Project Site.

(c) To accomplish the foregoing, the Issuer agrees to issue \$125,000,000 aggregate principal amount of its 2016 Series A Bonds following the execution of this Agreement on the terms and conditions set forth in the Indenture. The proceeds from the sale of the 2016 Series A Bonds shall be allocated and applied exclusively and in whole to refund, pay, and discharge the respective outstanding principal amounts of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds on or before the 90th day from the Issuance Date.

(d) The Issuer will cooperate with the Company and take all actions necessary for the Company to comply with Section 2.2(m), (q) and (t) hereof and take other actions reasonably requested by the Company in furtherance of this Agreement.

(e) The Project Site is located within the Issuer's jurisdictional boundaries.

Section 2.2. Representations, Warranties, And Covenants By The Company. The Company represents, warrants, and covenants that:

(a) The Company (1) is a corporation duly incorporated, validly existing, and in good standing under the laws of the Commonwealth of Kentucky; (2) is duly qualified, authorized, and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business; and (3) is not in violation of any provision of its Articles of Incorporation, its Bylaws, or any laws of the Commonwealth of Kentucky relevant to the transactions contemplated hereby or in connection with the issuance of the 2016 Series A Bonds.

(b) The Company has full and complete legal power and authority to execute and deliver this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds to be issued pursuant thereto, and has by proper corporate action duly authorized the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds.

(c) The Project currently refinanced by application of the proceeds of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds and Company funds was designed and constructed to control, contain, reduce, and abate air and water pollution at the Project Site. The Project was and is necessary for the public health and welfare and has been designed solely for the purposes of controlling air and water pollution and the Project constitutes air and water pollution control facilities and facilities functionally related and subordinate to such facilities under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended.

(d) All of the proceeds of the 2016 Series A Bonds, exclusive of accrued interest, if any, shall be used on or before the 90th day from the Issuance Date exclusively and only to redeem, pay, and discharge the principal of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds, not less than substantially all of the net proceeds of each series of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds (i.e., at least 95% of the net proceeds thereof, including investment income thereon) were used to refinance the Cost of Construction of air and water pollution control facilities originally financed using the proceeds of the Refunded 1990 Series A Bonds and the Refunded 1990 Series B Bonds, respectively, and subsequently refinanced using the proceeds of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds, respectively, together with facilities functionally related and subordinate to such facilities, and all of such air and water pollution control facilities consist either of land or of property of a character subject to the allowance for depreciation provided in Code Section 167. The Company will provide

any additional moneys required to pay and discharge the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds within 90 days following the Issuance Date.

(e) The Project is of the type authorized and permitted by the Act, and the Cost of Construction of the Project was not less than \$125,000,000. All statements of fact contained herein respecting the Trimble County Generating Station, including the Project, which is an integral component of the Trimble County Generating Station, and the Issuer's authorization of the Project, including the Project's construction, Trimble County Generating Station expenditures, including Project expenditures, and construction and acquisition contracts and related matters are true and correct in all respects and are incorporated herein.

(f) No Event of Default, and no event of the type described in clauses (a) through (e) of Section 9.1 hereof, has occurred and is continuing and no condition exists which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject which would impair in any material respect its ability to carry out its obligations under this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, or the transactions contemplated hereby or thereby. Neither the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, the consummation of the transactions contemplated hereby or thereby or by the Indenture, nor the fulfillment of or compliance with the terms and conditions hereof or thereof conflicts with or results in a breach of the terms, conditions, or provisions of any corporate restriction or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge, or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

(g) The Company intends to continue to operate or cause the Project to be operated as air and water pollution control facilities and facilities functionally related and subordinate thereto until all of the 2016 Series A Bonds are paid and discharged.

(h) No portion of the proceeds of 2016 Series A Bonds will be invested at a yield in excess of the yield on the 2016 Series A Bonds except: (1) during any permitted temporary period provided by the Code; (2) proceeds of a reasonably required reserve or replacement fund; and (3) as part of a minor portion of the proceeds of the 2016 Series A Bonds, not in excess of the lesser of 5% of the proceeds of the 2016 Series A Bonds or \$100,000. As used herein, "yield" shall have the meaning assigned to it for purposes of Code Section 148.

(i) No portion of the proceeds from the sale of the 2016 Series A Bonds will be deposited to the account of any reasonably required reserve or replacement fund or used to pay any costs of issuance of the 2016 Series A Bonds or any redemption premium or accrued interest on the Refunded 2000 Series A Bonds or the Refunded 2002 Series A Bonds, but such proceeds will be applied and used solely and exclusively to refund, pay, and discharge the outstanding principal amount of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds on or before the 90th day after the Issuance Date.

(j) The Company will provide any additional moneys, including investment proceeds of the 2016 Series A Bonds, required for the respective payment and discharge of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds, payment of redemption premium, if any, and accrued interest in respect thereto and payment of all underwriting discount and costs of issuance of the 2016 Series A Bonds. Any investment proceeds of the 2016 Series A

Bonds allocated to the Project shall be used exclusively to pay interest or redemption premium due, if any, on the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds on their respective Redemption Dates.

(k) The Company will cause no investment of 2016 Series A Bond proceeds to be made and will make no other use of or omit to take any action with respect to the proceeds of the 2016 Series A Bonds or any funds reasonably expected to be used to pay the 2016 Series A Bonds which will cause the 2016 Series A Bonds or any of them to be “arbitrage bonds” within the meaning of Code Section 148 or would otherwise result in the loss or impairment of the exclusion of the interest on such 2016 Series A Bonds from gross income for federal income tax purposes.

(l) The average maturity of the 2016 Series A Bonds does not exceed one hundred twenty percent (120%) of the average reasonably expected remaining economic life (as of the Issuance Date) of the Project refinanced by the proceeds of the 2016 Series A Bonds.

(m) The Company will provide all information requested by the Issuer necessary to evidence compliance with the requirements of the Code, including the information in United States Internal Revenue Service Form 8038 to be filed by the Issuer with respect to the 2016 Series A Bonds and the air and water pollution control facilities constituting the Project, and such information will be true and correct in all material respects.

(n) Within the meaning of Code Section 149, no portion of the payment of the principal or interest on the 2016 Series A Bonds, the Refunded 2000 Series A Bonds, or the Refunded 2002 Series A Bonds was or shall be guaranteed directly or indirectly by the United States or any agency or instrumentality thereof.

(o) All of the proceeds of the Refunded 1990 Series A Bonds, the Refunded 1990 Series B Bonds, the Refunded 2000 Series A Bonds, and the Refunded 2002 Series A Bonds have been fully expended and the Project has been completed. All of the actual Cost of Construction of the Project represent amounts paid or incurred which were properly chargeable to the capital account of the Project or would have been so chargeable either with a proper election by the Company or but for a proper election by the Company to deduct such amounts. Substantially all (i.e. at least 95%) of the net proceeds of the sale of the Refunded 1990 Series A Bonds and the Refunded 1990 Series B Bonds (including investment income therefrom), were used to finance and refinance Costs of Construction of the Project as described above, pay costs and expenses of issuing the Refunded 1990 Series A Bonds and the 1990 Series B Bonds, within then applicable Code limits, and pay interest and carrying charges on the Refunded 1990 Series A Bonds and the 1990 Series B Bonds during the period of construction of the Project and before the date the Project was placed in service.

(p) All of the depreciable properties which were taken into account in determining the qualifying costs of the Project constitute properties either: (1) used for the control, containment, reduction, and abatement of atmospheric pollution and contamination and water pollution; or (2) facilities which are functionally related and subordinate to the facilities constituting the Project. All of such functionally related and subordinate facilities are of a size and character commensurate with the size and character of the facilities constituting the Project.

(q) The Company will cause the Issuer to comply in all respects with the requirements of Code Section 148 in respect of the rebate of Excess Earnings with respect to the 2016 Series A Bonds to the United States of America.

(r) None of the proceeds of the 2016 Series A Bonds will be applied and none of the proceeds of the Refunded 1990 Series A Bonds, the Refunded 1990 Series B Bonds, the Refunded 2000 Series A Bonds, and the Refunded 2002 Series A Bonds were applied to provide any: (1) working capital; (2) office space (other than office space located on the premises of the Project where not more than a de minimus amount of the functions to be performed are not directly related to the day-to-day operations of the Project); (3) airplane; (4) skybox or other private luxury box; (5) health club facility; (6) facility primarily used for gambling; or (7) store, the principal business of which is the sale of alcoholic beverages for consumption off premises.

(s) Less than twenty-five percent (25%) of the net proceeds of the 2016 Series A Bonds will be applied and less than twenty-five percent (25%) of the net proceeds of the Refunded 1990 Series A Bonds, the Refunded 1990 Series B Bonds, the Refunded 2000 Series A Bonds, and the Refunded 2002 Series A Bonds were applied directly or indirectly to acquire land or any interest therein and no portion of such land, if acquired, was or is to be used for farming purposes. No portion of the proceeds of the 2016 Series A Bonds will be used and no portion of the proceeds of the Refunded 1990 Series A Bonds, the Refunded 1990 Series B Bonds, the Refunded 2000 Series A Bonds, and the Refunded 2002 Series A Bonds were used to acquire existing property or any interest therein with respect to which the Company was not the first user for federal income tax purposes.

(t) Upon the Issuance Date, the Company will have caused the Issuer to comply with the public approval requirements of Code Section 147; and at or following the issuance of the 2016 Series A Bonds, the Company will cause the Issuer to comply with the information reporting requirements of Code Section 149 by the filing of Internal Revenue Service Form 8038 with the United States Internal Revenue Service.

(u) All of the documents, instruments, and written information furnished by the Company on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the 2016 Series A Bonds are true and correct in all material respects as of the date of delivery thereof and did not, as of the date of delivery thereof, omit or fail to state any material facts necessary to be stated therein to make the information provided not misleading.

(v) The proceeds derived from the sale of the 2016 Series A Bonds will be used exclusively and solely to refund the outstanding principal amounts of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds. The principal amount of the 2016 Series A Bonds does not exceed the combined outstanding principal amounts of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds. The redemption of the outstanding principal amount of the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds with proceeds of the 2016 Series A Bonds will occur not later than 90 days after the Issuance Date. Any earnings derived from the investment of proceeds of the 2016 Series A Bonds will be fully needed and used on such redemption date to pay a portion of the interest accrued and payable on the Refunded 2000 Series A Bonds and the Refunded 2002 Series A Bonds on such date, but no such earnings and no such payments are expected.

(w) It is not anticipated, as of the date hereof, that there will be created any “replacement proceeds”, within the meaning of Treasury Regulation Section 1.148-1(c) with respect to the 2016 Series A Bonds; however, if any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Code Section 148.

(x) The Company will not use or cause to be used any of the funds provided by the Issuer hereunder (including the earnings on any of such funds) in such a manner as to, or take

or omit to take any action with respect to the use of such funds which would, impair the exclusion of the interest on any of the 2016 Series A Bonds from gross income for federal income tax purposes.

(y) The Company covenants to perform and observe all provisions of the Indenture required to be performed or observed by it.

(z) The Refunded 1990 Series A Bonds and the Refunded 1990 Series B Bonds were issued on November 20, 1990.

(aa) No construction, reconstruction, or acquisition of the Project, of which the Project is an integral part, was commenced before the taking of official action by the Issuer with respect thereto except for preparation of plans and specifications and other preliminary engineering work.

The Company need not comply with the covenants or representations in this Section 2.2 if and to the extent that the Issuer and the Company receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

ARTICLE III COMPLETION AND OWNERSHIP OF THE PROJECT

Section 3.1. Completion And Equipping Of The Project. The Company represents that it has previously caused components of the Project to be financed, constructed, in whole or in part, and placed in service, as applicable, as herein provided on the Project Site as previously evidenced by the filing of a completion certificate by the Company with Citizens Fidelity Bank and Trust Company (now known as The Bank of New York Mellon Trust Company, N.A.), as Trustee for the Refunded 1990 Series A Bonds and the Refunded 1990 Series B Bonds.

Section 3.2. Agreement As To Ownership Of The Project. The Issuer and the Company agree that title to and ownership of the Project shall remain in and be the sole property of the Company in which the Issuer shall have no interest. The Project is acknowledged to be subject to the lien of the First Mortgage Indenture. Notwithstanding any other provision hereof, the Company shall be permitted to sell or otherwise dispose of all or any portion of the Project, provided that the Company first receives a Favorable Opinion of Bond Counsel regarding such sale or disposition and provided further that upon any assignment, in whole or in part, of this Agreement, such assignment shall be in accordance with Section 8.1 hereof.

Section 3.3. Use Of The Project. The Issuer does hereby covenant and agree that it will not take any action during the term of this Agreement, other than pursuant to ARTICLE IX of this Agreement or ARTICLE IX of the Indenture, to interfere with the Company's ownership of the Project or to prevent the Company from having possession, custody, use, and enjoyment of the Project.

Section 3.4. Financing Of Additional Facilities. The Company and the Issuer hereby recognize that additional air or water pollution control facilities at the Project Site (other than the air and water pollution control facilities that constitute the Project) have in the past been and may in the future be acquired, constructed, installed, and equipped at the Project Site, and that same may be financed with proceeds of one or more series of the Issuer's revenue bonds issued in addition to the 2016 Series A Bonds issued pursuant to the Indenture, to the extent permitted by law.

ARTICLE IV
ISSUANCE OF 2016 SERIES A BONDS; APPLICATION OF PROCEEDS

Section 4.1. Agreement To Issue 2016 Series A Bonds; Application Of 2016 Series A Bond Proceeds . In order to provide funds to make the Loan, the Issuer will issue, sell, and deliver the 2016 Series A Bonds to the initial purchasers thereof and deposit the proceeds thereof with the Trustee into the (i) Prior 2000 Series A Bond Fund held by the Prior 2000 Series A Trustee, for the benefit and payment of the Refunded 2000 Series A Bonds, in an amount equal to the then outstanding principal amount of the Refunded 2000 Series A Bonds; and (ii) Prior 2002 Series A Bond Fund held by the Prior 2002 Series A Trustee, for the benefit and payment of the Refunded 2002 Series A Bonds, in an amount equal to the then outstanding principal amount of the Refunded 2002 Series A Bonds.

Section 4.2. Payment And Discharge Of Refunded 2000 Series A Bonds . The Company covenants and agrees with the Issuer that it will, on or before the Issuance Date, give irrevocable instructions to the Prior 2000 Series A Trustee to call and redeem the Refunded 2000 Series A Bonds in accordance with their terms and on or before the Issuance Date will deposit into the Prior 2000 Series A Bond Fund cash or Governmental Obligations (as defined in the 2000 Series A Indenture) sufficient on the Issuance Date, to fully defease and discharge the Refunded 2000 Series A Bonds on the Issuance Date in accordance with ARTICLE VIII of the 2000 Series A Indenture, without reference to any interest earnings to be accrued during the period from the Issuance Date to the redemption date of the Refunded 2000 Series A Bonds. Such matters shall be confirmed by issuance of an appropriate written certificate of the Prior 2000 Series A Trustee confirming defeasance and full discharge of the Refunded 2000 Series A Bonds upon the Issuance Date.

Section 4.3. Payment And Discharge Of Refunded 2002 Series A Bonds . The Company covenants and agrees with the Issuer that it will, on or before the Issuance Date, give irrevocable instructions to the Prior 2002 Series A Trustee to call and redeem the Refunded 2002 Series A Bonds in accordance with their terms and on the Issuance Date will deposit into the Prior 2002 Series A Bond Fund cash or Governmental Obligations (as defined in the 2002 Series A Indenture) sufficient on the Issuance Date, to fully defease and discharge the Refunded 2002 Series A Bonds on the Issuance Date in accordance with ARTICLE VIII of the 2002 Series A Indenture, without reference to any interest earnings to be accrued during the period from the Issuance Date to the redemption date of the Refunded 2002 Series A Bonds. Such matters shall be confirmed by issuance of an appropriate written certificate of the Prior 2002 Series A Trustee confirming defeasance and full discharge of the Refunded 2002 Series A Bonds upon the Issuance Date.

Section 4.4. Investment Of Moneys In The Bond Fund And The Rebate Fund . Moneys held as a part of the Bond Fund or the Rebate Fund shall be invested or reinvested by the Trustee, at the written request of and as specifically directed by the Company, in one or more Permitted Investments. If the Trustee is not provided with written investment instructions, the Trustee shall hold such amounts uninvested in cash, without liability for interest. The written investment directions provided to the Trustee shall constitute a certification of the Company that such investments constitute Permitted Investments. The Trustee may make any and all such investments through its own investment department.

Any such investments shall be held by or under the control of the Trustee. All moneys invested shall be deemed at all times a part of the fund for which such investments were made. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to such fund, and any loss resulting from such investments shall be charged pro rata to such fund. The Trustee shall sell and reduce to cash a sufficient amount of applicable investments whenever

the cash balance in the Bond Fund is insufficient to pay the principal of, premium, if any, and interest on the 2016 Series A Bonds or any other amount payable from the Bond Fund when due or upon any required disbursement from the Rebate Fund, respectively. The Trustee will not be liable for any investment loss (including any loss upon a sale of any investment) or any fee, tax, or other charge in respect of any investments, reinvestments, or any liquidation of investments made pursuant to this Agreement or the Indenture. The Rebate Fund shall never be commingled with any other fund or account.

To the extent permitted by applicable law, the Company and the Issuer each specifically waives compliance with 12 C.F.R. § 12 and hereby notify the Trustee that no brokerage confirmations need to be sent relating to the security transactions as they occur. Notwithstanding the foregoing, to the extent the Trustee receives and invests amounts in the Bond Fund and the Rebate Fund, the Trustee shall provide the Company and the Issuer with periodic cash transaction statements which shall include details for all investment transactions made by the Trustee with respect to such accounts.

Section 4.5. Special Arbitrage Certifications.

(a) The Company covenants and agrees that it will not take or authorize or permit any action to be taken and has not taken or authorized or permitted any action to be taken which results or would result in interest paid on any of the 2016 Series A Bonds being included in gross income of any owner thereof for purposes of federal income taxation (other than an owner who is a “substantial user” of the Project or a “related person” within the meaning of Code Section 147(a)) or adversely affects the validity of the 2016 Series A Bonds.

(b) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2016 Series A Bonds will not be used in any manner that would cause the 2016 Series A Bonds to be “arbitrage bonds” under Code Sections 103(b)(2) and 148 and other applicable sections thereof. To the best knowledge and belief of the Company, there are no facts, estimates, or circumstances that would materially change the foregoing conclusion.

(c) The Company hereby covenants that it will at all times comply and cause the Issuer to comply with the provisions of Section 148 and other applicable sections of the Code and will restrict the use of the proceeds of the 2016 Series A Bonds, in such manner and to such extent, if any, as may be necessary, and remit Excess Earnings with respect to all of the 2016 Series A Bonds, if any, to the United States of America pursuant to Code Section 148(f)(2) and carry out such actions so that the 2016 Series A Bonds will not constitute “arbitrage bonds” under Code Sections 103(b)(2) and 148. An officer or officers of the Issuer having responsibility with respect to the issuance of the 2016 Series A Bonds is or are hereby authorized and directed to give an appropriate certificate of the Issuer, for inclusion in the transcript of proceedings for the 2016 Series A Bonds, setting forth the reasonable expectations of the Issuer regarding the amount and use of the proceeds of the 2016 Series A Bonds and the facts, estimates, and circumstances on which they are based and related matters, all as of the date of delivery of and payment for the 2016 Series A Bonds pursuant to said Code Section 148. The Company shall provide the Issuer, and the Issuer’s certificate may be expressly based on, a certificate of the Company setting forth the facts, estimates, circumstances, and reasonable expectations of the Company on the date of delivery of and payment for the 2016 Series A Bonds regarding the amount and use of the proceeds of the 2016 Series A Bonds and related matters. If any such representation of the Company relied upon by the Issuer is untrue or inaccurate and the Issuer thereby suffers costs or damages, the Company shall indemnify the Issuer for any such costs or damages.

(d) Consistent with the foregoing, the Company covenants and certifies to the Issuer and to and for the benefit of the purchasers of the 2016 Series A Bonds, that no use will be made of the proceeds of the sale of the 2016 Series A Bonds which would cause the 2016 Series A Bonds to be classified as “arbitrage bonds” within the meaning of Code Sections 103(b)(2) and 148 and that the Company and the Issuer will, after issuance of the 2016 Series A Bonds, comply with the provisions of the Code at all times, including after the 2016 Series A Bonds are discharged, to the extent Excess Earnings with respect to the 2016 Series A Bonds are required to be rebated to the United States of America pursuant to Code Section 148(f)(2). Pursuant to such covenant, the Issuer and the Company obligate themselves throughout the term of this Agreement and thereafter not to violate the requirements of Code Section 148.

(e) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2016 Series A Bonds will be applied and invested in compliance with the current requirements of Code Section 149(g) and that consequently the 2016 Series A Bonds will not be “hedge bonds” under such Code Section 149(g).

(f) The Company hereby covenants and agrees that it will at all times comply with the provisions of Code Section 148, including Section 148(f) and with Section 6.07 of the Indenture. Specifically, the Company shall carry out, do, and perform all acts stipulated to be performed by the Company pursuant to Section 6.07 of the Indenture. The Company shall further undertake to assure and cause rebate payments, if any, to be calculated and made to the United States of America in accordance with Code Section 148(f)(2) from moneys on deposit in the Rebate Fund from time to time after the end of each Computation Period and following discharge of the 2016 Series A Bonds. The Company also covenants to take all necessary acts and steps as required to cause the Issuer to comply with the provisions of Sections 7.02 and 7.03 of the Indenture.

Section 4.6. Opinion Of Bond Counsel. The Company need not comply with the covenants or representations in Section 4.5 hereof if and to the extent that the Issuer and the Company (with a copy to the Trustee) receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

Section 4.7. First Mortgage Bonds. The Company covenants and agrees with the Issuer that it will, for the purpose of providing security for the 2016 Series A Bonds, execute and deliver to the Trustee the First Mortgage Bonds in aggregate principal amount equal to the aggregate principal amount of the 2016 Series A Bonds. The First Mortgage Bonds shall mature as to principal identically as in the case of the 2016 Series A Bonds and, upon the giving of a Redemption Demand to the First Mortgage Trustee and completion of other conditions precedent set forth in the First Mortgage Indenture Supplement, shall bear interest as provided in the First Mortgage Indenture Supplement.

Upon the occurrence of an Event of Default under ARTICLE IX of this Agreement, that has resulted in a default in payment of the principal of, premium, if any, or interest on the 2016 Series A Bonds as and when the same come due, whether at maturity, redemption, acceleration, or otherwise, or a default in payment of the purchase price of any 2016 Series A Bond tendered for purchase, the acceleration of the maturity date of the 2016 Series A Bonds (to the extent not already due and payable) as a consequence of such Event of Default and the receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee, the First Mortgage Bonds shall bear interest, and principal and interest thereon will be payable, in accordance with the provisions specified in the First Mortgage Indenture Supplement.

Upon payment of the principal of, premium, if any, and interest on any of the 2016 Series A Bonds, whether at maturity or before maturity by redemption or otherwise, and the surrender thereof to, and cancellation thereof by, the Trustee, or upon provision for the payment thereof having been made in accordance with the provisions of ARTICLE VIII of the Indenture, First Mortgage Bonds in an amount equal to the aggregate principal amount of the 2016 Series A Bonds so surrendered and cancelled or for the payment of which provision has been made shall be deemed fully paid and the obligations of the Company thereunder terminated and such First Mortgage Bonds shall be surrendered by the Trustee to the First Mortgage Trustee, and shall be cancelled by the First Mortgage Trustee. All of the First Mortgage Bonds shall be registered in the name of the Trustee and shall be non-transferable, except to effect transfers to any successor trustee under the Indenture.

ARTICLE V PROVISIONS FOR PAYMENT

Section 5.1. Loan Payments And Other Amounts Payable.

(a) The Company hereby covenants and agrees to repay the Loan, as follows: on or before any Interest Payment Date for the 2016 Series A Bonds or any other date that any payment of interest, premium, if any, purchase price, or principal is required to be made in respect of the 2016 Series A Bonds at the times specified in accordance with the more specific provisions and requirements of the Indenture, until the principal of, premium, if any, and interest on the 2016 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, it will pay to the Trustee, for disbursement by the Trustee, as Paying Agent, or for disbursement by any Paying Agent such sums which will enable the Paying Agent to pay the amounts payable on such date, in immediately available funds, as principal of (whether at purchase, maturity, or upon redemption, acceleration, or otherwise), premium, if any, and interest on the 2016 Series A Bonds as provided in the Indenture; provided that such payments by the Company to enable the Tender Agent to pay the purchase price of 2016 Series A Bonds shall be made within the times required by Section 3.06 of the Indenture. It is understood and agreed that all payments payable by the Company under this Section 5.1(a) are assigned by the Issuer to the Trustee, the Paying Agent, and the Tender Agent, as applicable, for the benefit of the Holders. The Company assents to such assignment. The Issuer hereby directs the Company and the Company hereby agrees to pay to the Trustee or the Paying Agent or the Tender Agent, as appropriate, at the Designated Office of the Trustee or the Paying Agent or the Tender Agent, as appropriate, all payments payable by the Company pursuant to this Section 5.1(a).

(b) The Company will also pay the reasonable expenses of the Issuer related to the issuance of the 2016 Series A Bonds and incurred upon the request of the Company.

(c) The Company will also pay the agreed upon fees and expenses of the Trustee (including those referred to in Section 10.02 of the Indenture), the Bond Registrar, the Tender Agent, and the Paying Agent under the Indenture and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent, and the Tender Agent, as applicable from time to time, under the Indenture, such amounts to be paid directly to the Trustee, the Bond Registrar, the Paying Agent, and the Tender Agent for their respective own accounts as and when such amounts become due and payable.

(d) The Company further agrees to hold harmless the Trustee, the Bond Registrar, and the Paying Agent against any loss, liability, or expense, including reasonable attorneys' fees and expenses, incurred by it without negligence or bad faith on its part in connection with the issuance of the 2016 Series A Bonds or the acceptance or administration of the trusts under the

Indenture, including the costs of defending itself against any claim or liability in connection therewith.

(e) The Company covenants, for the benefit of the Holders, if applicable, to pay or cause to be paid, to the Tender Agent for deposit in the Purchase Fund, such amounts as shall be necessary to enable the Tender Agent to pay the Purchase Price of 2016 Series A Bonds delivered to it for purchase, all as more particularly described in Sections 3.04 and 3.06 of the Indenture, and, in that regard, it will maintain an account with the Tender Agent and will pay in immediately available funds, a sum which will enable the Tender Agent to pay the purchase price of 2016 Series A Bonds delivered to it for purchase, as provided in the Indenture.

(f) If the Company should fail to make any of the payments required in this Section 5.1, the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon, to the extent permitted by law, from the date when such payment was due to the date of payment.

Section 5.2. Payments Assigned. As set forth in Section 5.1 hereof, it is understood and agreed that this Agreement and all payments made by the Company pursuant to this Agreement (except payments pursuant to Section 5.1(b) and (c) hereof or pursuant to Section 8.2 hereof) are assigned by the Issuer to the Trustee. The Company assents to such assignment and hereby agrees that, as to the Trustee, the Paying Agent, and the Tender Agent, as applicable from time to time, its obligation to make such payments shall be absolute, irrevocable, and unconditional and shall not be subject to cancellation, termination, or abatement or to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach by any party, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing by any party. Except as provided above, the Issuer hereby directs the Company and the Company hereby agrees to pay directly to the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent, and the Issuer, as appropriate, all said payments payable by the Company pursuant to Section 5.1 hereof.

Section 5.3. Taxes And Other Governmental Charges. The Company agrees to pay during the term of this Agreement, as the same respectively become due, all taxes, assessments, and other governmental charges of any kind whatsoever that may at any time be lawfully assessed, levied, or charged against or with respect to the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as may have become due and provided further that nothing herein shall be construed as obligating the Company to pay taxes on any interest or principal on the 2016 Series A Bonds disbursed to the Holders.

The Company may, at its expense and in its own name, in good faith contest any such taxes, assessments, and other governmental charges and, upon any such contest, may permit the taxes, assessments, or other governmental charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless, in the opinion of its counsel, by nonpayment of any such items the security provided pursuant to the provisions of the Indenture will be materially endangered, in which event such taxes, charges for payments in lieu of taxes, assessments, or other governmental charges shall be paid forthwith. The Issuer will cooperate fully with the Company in any such contest. If the Company shall fail to pay any of the foregoing items required by this Section 5.3 to be paid by the Company, the Issuer or the Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Company to the one making the advancement, which amounts, together with interest thereon the Company agrees to pay at a rate which shall be one percent above the lowest

minimum lending rate publicly quoted at such time as being charged by any commercial bank which is a member of the New York Clearing House on 90-day commercial loans to its prime commercial borrowers or the maximum rate permitted by law, whichever is lesser, until paid; but no such advancement shall operate to relieve the Company from any default hereunder. The Company may at its expense and in its own name and behalf apply for any tax exemption or exemption from payments in lieu of taxes allowed by the Commonwealth of Kentucky, or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant any such tax exemption or exemption from payments in lieu of taxes.

Section 5.4. Obligations Of The Company Unconditional. The obligation of the Company to make the payments pursuant to this Agreement and to make any payments required in respect of the Rebate Fund as provided in Section 6.07 of the Indenture shall be absolute and unconditional. Until such time as the principal of, premium, if any, and interest on the 2016 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Company (a) will not suspend or discontinue any payments pursuant to this Agreement; and (b) except as provided in ARTICLE X hereof, will not terminate this Agreement for any cause including failure of title to the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, destruction of, or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Kentucky or any political subdivision thereof or any failure of the Issuer or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Agreement. Nothing contained in this Section 5.4 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and if the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall be in accordance with the agreements on the part of the Company contained in the preceding sentence. The Company may, however, at its own cost and expense and in its own name or in the name of the Issuer, prosecute or defend any action or proceeding or take any other action involving third persons which the Company deems reasonably necessary in order to secure or protect its right of ownership, possession, occupancy, and use of the Project, and in such event the Issuer hereby agrees to cooperate fully with the Company.

Section 5.5. Rebate Fund. The Company agrees to make all payments to the Trustee and rebate all amounts to the United States of America as are required of it under the Code and the Indenture. The obligation of the Company to make such payments shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the Indenture.

Section 5.6. Redemption Of The 2016 Series A Bonds In Advance of Scheduled Maturity . Under the terms of the Indenture, the 2016 Series A Bonds are and will be subject to redemption before their scheduled maturity. The Issuer and the Company agree that, if and when the Company shall direct the Trustee to redeem and call 2016 Series A Bonds, it shall do so on behalf of the Issuer.

Section 5.7. Cancellation Of 2016 Series A Bonds. The cancellation by the Bond Registrar of any 2016 Series A Bond or Bonds purchased by the Company and delivered to the Bond Registrar for cancellation or of any 2016 Series A Bond or Bonds redeemed or purchased by the Issuer through funds other than funds received as Loan payments hereunder shall constitute a Loan payment equal to the principal amount of the 2016 Series A Bond or Bonds so cancelled.

ARTICLE VI
MAINTENANCE; DAMAGE, DESTRUCTION, AND
CONDEMNATION; USE OF NET PROCEEDS; INSURANCE

Section 6.1. Maintenance. So long as any 2016 Series A Bond is Outstanding, the Company will maintain, preserve, and keep the Project, or cause the Project to be maintained, preserved, and kept, in good repair, working order, and condition and will from time to time make or cause to be made all proper repairs, replacements, and renewals necessary to continue to constitute the Project as Pollution Control Facilities; provided, however, that the Company will have no obligation to maintain, preserve, keep, repair, replace, or renew any element or portion of the Project (a) the maintenance, preservation, keeping, repair, replacement, or renewal of which becomes uneconomical to the Company because of damage or destruction by a cause not within the control of the Company, or condemnation of all or substantially all of the Project or the generating facilities to which the element or unit of the Project is an adjunct, or obsolescence (including economic obsolescence), or change in government standards and regulations, or the termination by the Company of the operation of the generating facilities to which the element or unit of the Project is an adjunct, and (b) with respect to which the Company has furnished to the Issuer and the Trustee a certificate executed by the Company Representative certifying that the maintenance, preservation, keeping, repair, replacement, or renewal of such element or unit of the Project is being discontinued for one of the foregoing reasons, which shall be stated therein, and that the discontinuance of such element or unit will not adversely affect the exclusion of interest on any of the 2016 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a).

The Company shall have the privilege at its own expense of remodeling the Project or making substitutions, modifications, and improvements to the Project from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications, and improvements shall be included under the terms of this Agreement as part of the Project; provided, however, that the Company shall take no actions which will change or alter the basic nature of the Project as Pollution Control Facilities.

If, before full payment of all 2016 Series A Bonds outstanding (or provision for payment thereof having been made in accordance with the provisions of the Indenture), the Project or any portion thereof is destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project or any portion thereof shall have been taken by the exercise of the power of eminent domain, and the Issuer, the Company, or the First Mortgage Trustee receives Net Proceeds from insurance or any condemnation award in connection therewith, the Company (unless it shall have exercised its option to prepay the Loan pursuant to provisions of Section 10.1(b) or (c) hereof) shall, subject to compliance with the terms of the First Mortgage Indenture, either (i) cause such Net Proceeds to be used to repair, reconstruct, restore, or improve the Project; (ii) take any action, including causing the redemption of the 2016 Series A Bonds, in whole or in part, on any date which is a Business Day, which, in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on any of the 2016 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a) provided that if a Credit Facility is then in effect with respect to the 2016 Series A Bonds, the Company shall reimburse the applicable Credit Facility Issuer for drawings under such Credit Facility for such redemption; provided further that if the 2016 Series A Bonds bear interest at the Flexible Rate or the Semi-Annual Rate, such redemption must occur on a date on which the 2016 Series A Bonds are otherwise subject to optional redemption.

Section 6.2. Insurance. The Company agrees to insure the Project at all times in accordance with the First Mortgage Indenture.

ARTICLE VII SPECIAL COVENANTS

Section 7.1. No Warranty Of Condition Or Suitability By The Issuer. The Issuer makes no warranty, either express or implied, as to the Project or that it will be suitable for the Company's purposes or needs.

Section 7.2. The Company To Maintain Its Corporate Existence; Conditions Under Which Exceptions Are Permitted. The Company agrees that during the term of this Agreement it will maintain its existence and good standing, will continue to be a corporate entity organized under the laws of the Commonwealth of Kentucky or qualified and admitted to do business in the Commonwealth of Kentucky, and will neither dispose of all or substantially all of its assets nor consolidate with nor merge into another entity unless the acquirer of its assets or the entity with which it shall consolidate or into which it shall merge, (a) shall be a corporation or other business organization organized and existing under the laws of the United States or one of the states of the United States of America or the District of Columbia; (b) shall be qualified and admitted to do business in the Commonwealth of Kentucky; (c) shall assume in writing all of the obligations and covenants of the Company herein; and (d) shall deliver a copy of such assumption to the Issuer and the Trustee.

Section 7.3. Financial Statements. The Company agrees to furnish the Trustee (within 120 days after the close of each fiscal year) with an audited balance sheet and statements of income, retained earnings, and changes in cash flows showing the financial condition of the Company and its consolidated subsidiary or subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiary or subsidiaries, if any, for such fiscal year, accompanied by an opinion of its regular independent certified public accountants that such statements fairly represent the financial condition of the Company in accordance with generally accepted accounting principles. The requirements of this Section 7.3 shall be satisfied by the submission to the Trustee of the Company's annual report on Form 10-K. The information so provided to the Trustee shall be kept in its files and is not required to be distributed to any Holder or other Person. Delivery of such reports, information, and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on certifications of the Company).

Section 7.4. Further Assurances And Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention of or facilitating the performance of this Agreement.

Section 7.5. The Issuer Representative. Whenever under the provisions of this Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative and the Company or the Trustee shall be authorized to act on any such approval or action, and the Issuer shall have no redress against the Company or the Trustee as a result of any such action taken.

Section 7.6. The Company Representative. Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action

at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative and the Issuer or the Trustee shall be authorized to act on any such approval or action and the Company shall have no redress against the Issuer or the Trustee as a result of any such action taken.

Section 7.7. Financing Statements. The Company shall, to the extent required by law, file and record, refile and rerecord, or cause to be filed and recorded, refiled and rerecorded, all documents or notices, including financing statements and continuation statements, required by law in order to perfect, or maintain the perfection of, the lien of the Indenture. The Issuer shall cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the 2016 Series A Bonds, the Company shall cause to be delivered to the Trustee an opinion of counsel (a) stating that in the opinion of such counsel, either: (i) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices, and financing statements as is necessary to perfect the lien of the Indenture under the Uniform Commercial Code of the Commonwealth of Kentucky; or (ii) no such action is necessary to so perfect such liens; and (b) stating the requirements for the filing of continuation statements or other documentation or notices in order to maintain the perfection of the lien of the Indenture, which filings the Company agrees to undertake.

Section 7.8. The Company's Performance Under Indenture. The Company agrees, for the benefit of Holders to do and perform all acts and things contemplated in the Indenture to be done and performed by it.

ARTICLE VIII ASSIGNMENT; INDEMNIFICATION; REDEMPTION

Section 8.1. Assignment. This Agreement may be assigned by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee, subject, however, to each of the following conditions:

(a) No assignment (other than pursuant to Section 7.2 hereof) shall relieve the Company from primary liability for any of its obligations hereunder, and upon any such assignment the Company shall remain primarily liable for payments of the amounts specified in Section 5.1 hereof and for performance and observance of the other covenants or agreements on its part herein provided to be performed and observed to the same extent as though no assignment had been made;

(b) The assignee shall assume the obligations of the Company hereunder to the extent of the interest assigned;

(c) The Company shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Issuer and to the Trustee a true and complete copy of each such assignment and assumption of obligation; and

(d) Before such assignment, the Company shall have obtained a Favorable Opinion of Bond Counsel regarding the assignment.

Section 8.2. Release And Indemnification Covenants. The Company releases the Issuer from and covenants and agrees that the Issuer shall not be liable for, and agrees to indemnify and hold the Issuer harmless against, any expense or liability incurred by the Issuer, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection

with the financing thereof. If any such claim is asserted, the Issuer agrees to give prompt notice to the Company and the Company will assume the defense thereof, with full power to litigate, compromise, or to settle the same in its sole discretion, it being understood that the Issuer will not settle or consent to the settlement of the same without the consent of the Company.

Section 8.3. Assignment Of Interest In Agreement By The Issuer. Any assignment by the Issuer to the Trustee pursuant to the Indenture or this Agreement of any moneys receivable under this Agreement shall be subject and subordinate to this Agreement.

Section 8.4. Redemption Of 2016 Series A Bonds. Upon the agreement of the Company to deposit moneys in the Bond Fund in an amount sufficient to redeem 2016 Series A Bonds subject to redemption, the Issuer, at the request of the Company, shall forthwith take all steps (other than the payment of the money required for such redemption) necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part of the 2016 Series A Bonds outstanding, as may be specified by the Company, on the redemption date specified by the Company.

Section 8.5. Reference To 2016 Series A Bonds Ineffective After 2016 Series A Bonds Paid. Upon payment in full of the 2016 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and payment of all amounts required to be paid to the United States of America via the Trustee pursuant to Section 5.5 hereof and payment of all fees and charges of the Trustee (including reasonable attorneys' fees and expenses), the Bond Registrar, the Authenticating Agent, and any Paying Agent, all references in this Agreement to the 2016 Series A Bonds, the First Mortgage Bonds, and the Trustee shall be ineffective and neither the Trustee nor the Holders thereafter have any rights hereunder except as set forth in Section 11.1 hereof.

ARTICLE IX EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events Of Default Defined. The following shall be "Events of Default" under this Agreement and the term "Events of Default" shall mean, whenever it is used in this Agreement, one or more of the following events:

(a) Failure by the Company to pay any amount required to be paid under subsections (a) and (e) of Section 5.1 hereof which results in failure to pay principal of, premium, or interest on or the purchase price of the 2016 Series A Bonds, and such failure shall cause an Event of Default under the Indenture.

(b) Failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed, other than as referred to in subsection (a) of this Section 9.1, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time before its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if such failure is capable of being cured and corrective action is instituted by the Company within the applicable period and is being diligently pursued.

(c) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking: (1) relief in respect of the Company, or of a substantial part of the property or assets of the Company, under Title 11 of the United States

Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; or (3) the winding-up or liquidation of the Company; and such proceeding or petition shall continue undismissed or unstayed for 90 days or an order or decree approving or ordering any of the foregoing shall be entered.

(d) The Company shall: (1) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in Section 9.1(c) above; (3) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; (4) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (5) make a general assignment for the benefit of creditors; (6) become unable, admit in writing its inability, or fail generally to pay its debts as they become due; or (7) take any action for the purpose of effecting any of the foregoing.

(e) All bonds outstanding under the First Mortgage Indenture shall, if not already due, have become immediately due and payable, whether by declaration of the First Mortgage Trustee or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

(f) The occurrence of an Event of Default under the Indenture.

The provisions of Section 9.1(b) hereof are subject to the following limitations: If by reason of force majeure the Company is unable in whole or in part to carry out its agreements on its part herein contained, other than the obligations on the part of the Company contained in Section 2.2(j), Section 2.2(k), Section 4.2, Section 4.5, Section 4.7, or Section 7.2 or ARTICLE V hereof and the general covenant and obligation of the Company to take all necessary actions for the continued exclusion of interest on the 2016 Series A Bonds from gross income for federal and Kentucky income taxes, the Company shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean any cause or event not reasonably within the control of the Company, including acts of God; strikes; wars or national police actions, lockouts or other industrial disturbances; acts of public enemies, including terrorists; orders of any kind of the government of the United States or of the Commonwealth of Kentucky or any of their departments, agencies, or officials, or any civil or military authority; evacuations and quarantines; insurrections; riots; epidemics; plague; famine; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; typhoons; cyclones; volcanic eruptions; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery and transmission lines or pipes; or partial or entire failure of utility services. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements; provided, that the settlement of strikes, lockouts, and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

Section 9.2. Remedies On Default. Whenever any Event of Default referred to in Section 9.1 hereof shall have happened and be continuing, the Trustee may take any one or more of the following remedial steps:

(a) By written notice to the Company, the Trustee, on behalf of the Issuer, may declare an amount equal to the principal and accrued interest on the 2016 Series A Bonds then Outstanding to be immediately due and payable under this Agreement, whereupon the same shall become immediately due and payable.

(b) The Trustee, on behalf of the Issuer, may have access to and inspect, examine, and make copies of the books and records and any and all accounts, data, and income tax and other tax returns of the Company.

(c) The Trustee, on behalf of the Issuer, may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement, including any remedies available in respect of the First Mortgage Bonds.

In case there shall be pending a proceeding of the nature described in Section 9.1(c) or (d) hereof, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors, or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any custodian (including a receiver, trustee, or liquidator) of the Company appointed in connection with such proceedings is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including reasonable counsel fees and expenses incurred by it up to the date of such distribution.

Any amounts collected pursuant to action taken under this Section 9.2 (other than the compensation and expenses referred to in the immediately prior sentence) shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the 2016 Series A Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and all reasonable and necessary fees and expenses of the Trustee and any paying agents accrued and to accrue through final payment of the 2016 Series A Bonds, and all other liabilities of the Company accrued and to accrue hereunder or under the Indenture through final payment of the 2016 Series A Bonds have been paid, such amounts so collected shall be paid to the Company.

Section 9.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this ARTICLE IX, it shall not be necessary to give any notice other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder

shall also extend to the Trustee, and the Trustee and the Holders, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

Section 9.4. Agreement To Pay Reasonable Attorneys' Fees And Expenses . If the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Section 9.5. Waiver Of Events Of Default. If, after the acceleration of the maturity of the outstanding 2016 Series A Bonds by the Trustee pursuant to the Indenture, and before any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been obtained or entered, the Company shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all 2016 Series A Bonds and the principal of, and premium, if any, on any and all 2016 Series A Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and premium, if any, and overdue installments of interest, at the rate per annum which is one percent above the highest rate borne by any 2016 Series A Bond, until paid), and such amounts as shall be sufficient to cover all expenses of the Trustee in connection with such default, and all defaults under the Indenture and this Agreement, other than nonpayment of principal of 2016 Series A Bonds which shall have become due by said declaration, shall have been remedied, and such Event of Default under the Indenture shall be deemed waived by the Trustee in accordance with Section 9.11 of the Indenture with the consequence that under the Indenture such acceleration is rescinded, then the Company's default hereunder shall be deemed to have been waived by the Issuer and no further action or consent by the Trustee or the Issuer shall be required. If any agreement or covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE X PREPAYMENT OF LOAN

Section 10.1. Options To Prepay Loan. The Company shall have, and is hereby granted, options to prepay the Loan in whole and to cancel or terminate this Agreement on any Business Day at any time the Company so elects, if certain events shall have occurred within the 180 days preceding the giving of written notice by the Company to the Trustee of such election, as follows:

(a) If in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed after the issuance of the 2016 Series A Bonds upon the Company with respect to the Project or the operation thereof, including without limitation federal, state, or other ad valorem, property, income, or other taxes not imposed on the date of this Agreement other than ad valorem taxes presently levied upon privately owned property used for the same general purpose as the Project;

(b) If the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use and such condition shall continue for a period of six months;

(c) There shall have occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use;

(d) If changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment, or other properties or things necessary for the efficient operation of the Trimble County Generating Station of the Company shall have occurred which, in the judgment of the Company, render the continued operation of the Trimble County Generating Station or any generating unit at such station uneconomical; or changes in circumstances, after the issuance of the 2016 Series A Bonds including but not limited to changes in clean air or water or other air and water pollution control requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;

(e) If this Agreement shall become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action, whether state or federal, or any final decree, judgment, or order of any court or administrative body, whether state or federal; or

(f) A final order or decree of any court or administrative body after the issuance of the 2016 Series A Bonds shall require the Company to cease a substantial part of its operations at the Trimble County Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such location for a period of six months.

In the case of prepayment pursuant to this Section 10.1 (or if any 2016 Series A Bonds be redeemed in whole or in part pursuant to Section 6.1 hereof), the Loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem all 2016 Series A Bonds then outstanding (or, in the case any 2016 Series A Bonds are redeemed in part pursuant to Section 6.1 hereof, such portion of the 2016 Series A Bonds then outstanding) under the Indenture at a price equal to 100% of the principal amount thereof plus interest accrued and to accrue to the date of redemption of the 2016 Series A Bonds and to pay all reasonable and necessary fees and expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2016 Series A Bonds. In order to exercise any option to prepay the Loan and to cancel or terminate this Agreement by reason of the occurrence of any of the events mentioned in (a) through (f) above, the Company is required to give written notice to the Trustee of its election to prepay the Loan within 180 days of the occurrence of any of the events mentioned in (a) through (f) above.

Section 10.2. Additional Option To Prepay Loan . The Company shall have, and is hereby granted, further options, to the extent that the 2016 Series A Bonds are, from time to time, subject to optional redemption, during any period of optional redemption, to prepay all, or any portion, of the relevant and applicable Loan payments due or to become due hereunder by depositing with the Trustee moneys sufficient to pay, together with other funds deposited with the Trustee and available for such purpose, the principal of and applicable premium, if any, and accrued interest, through the date of redemption (which must be a Business Day), on all or any portion of the 2016 Series A Bonds then outstanding under the Indenture and, upon depositing with the Trustee moneys sufficient to pay the principal, applicable premium, if any, and accrued interest, through the date of redemption, on all 2016 Series A Bonds then outstanding under the Indenture, as well as all reasonable and

necessary expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder, to cancel or terminate the term of this Agreement.

Section 10.3. Obligations To Prepay Loan.

(a) **Mandatory Redemption Upon Determination Of Taxability.** The Company shall be obligated to prepay the entire Loan or any part thereof, as provided below, before the required full payment of the 2016 Series A Bonds (or before making provision for payment thereof in accordance with the Indenture) on the 180th day (or such earlier date as may be designated by the Company), which, in every case, must be a Business Day, upon the occurrence of a Determination of Taxability. The Issuer and the Company shall take all actions required to mandatorily redeem the 2016 Series A Bonds at the cost of the Company upon the terms specified in this Agreement and in ARTICLE IV of the Indenture following the occurrence of a Determination of Taxability, including prepaying appropriate amounts due on the 2016 Series A Bonds in order to effect such redemption. The 2016 Series A Bonds shall be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a Determination of Taxability. For purposes of this Section 10.3, a “**Determination of Taxability**” shall mean the receipt by the Trustee of written notice from a current or former registered owner of a 2016 Series A Bond or from the Company or the Issuer of: (1) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists; or (2) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in this Agreement or any other agreement or certificate delivered in connection with the 2016 Series A Bonds, the interest on the 2016 Series A Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of Code Section 147; provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2016 Series A Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2016 Series A Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof; and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense; or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal, or rehearing of such decree, judgment, or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2016 Series A Bond in the computation of minimum or indirect taxes. All of the 2016 Series A Bonds shall be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of the 2016 Series A Bonds of one or more series or one or more maturities would have the result that interest payable on the remaining 2016 Series A Bonds outstanding after the redemption would not be so included in any such gross income.

If the Issuer, the Company, or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit, or other proceedings relating to the 2016 Series A Bonds being conducted by the Internal Revenue Service, the party so put on notice shall give immediate written notice to the other parties of such matters.

Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described in this Section 10.3(a), the Company shall give notice thereof to the Trustee and the Issuer.

(b) In the case of the mandatory obligation of the Company to prepay the Loan or any part thereof after the occurrence of a Determination of Taxability, pursuant to Section 10.3(a) hereof, the Company shall be obligated to prepay such Loan or such part thereof not later than 180 days after any such final determination as specified in Section 10.3(a) hereof and to provide to the Trustee for deposit in the Bond Fund an amount sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem such 2016 Series A Bonds at the price of 100% of the principal amount thereof in accordance with Section 5.1 hereof plus interest accrued and to accrue to the date of redemption of the 2016 Series A Bonds and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2016 Series A Bonds.

(c) If a Determination of Taxability occurs when all or any portion of the 2016 Series A Bonds are owned by any Purchaser, the Company hereby agrees to pay to such Purchaser, in addition to the redemption price of the 2016 Series A Bonds owned by such Purchaser, the following additional amounts:

(1) an additional amount equal to the difference between (A) the amount of interest paid on the 2016 Series A Bonds during the Taxable Period and (B) the amount of interest that would have been paid on the 2016 Series A Bonds during the Taxable Period had the 2016 Series A Bonds borne interest at the Taxable Rate; and

(2) an amount equal to any interest, penalties on overdue interest, and additions to tax (as referred to in Subchapter A of Chapter 68 of the Code) owed by such Purchaser as a result of occurrence of a Determination of Taxability.

Section 10.4. Notice Of Prepayment; Redemption Procedures. It is understood and agreed by the parties hereto that in order to exercise an option granted in, or to consummate a mandatory prepayment required by, this ARTICLE X, the Company shall give written notice to the Issuer and the Trustee which notice shall (a) contain the agreement of the Company to deposit moneys in the Bond Fund on or before the redemption date in an amount sufficient to redeem a principal amount of the 2016 Series A Bonds equal to the amount of the prepayment, including, in the case of a prepayment under Section 10.2 hereof, any applicable redemption premium in respect of such 2016 Series A Bonds, and any other amounts required under this Agreement; (b) specify the prepayment date (which must be a Business Day and which shall also be the redemption date); and (c) comply with Section 4.07 of the Indenture regarding the number of days' notice the Company is required to give the Issuer and the Trustee for the redemption of 2016 Series A Bonds bearing interest in the then applicable Interest Rate Mode.

Section 10.5. Relative Position Of This Article And Indenture. The rights and options granted to the Company in this ARTICLE X, except the option granted to the Company pursuant to Section 10.2 to prepay less than all of the Loan payments, shall be and remain prior and superior to the Indenture and may be exercised whether or not the Company is otherwise in default hereunder;

provided that such default will not result in nonfulfillment of any condition to the exercise of any such right or option.

Section 10.6. Concurrent Discharge Of First Mortgage Bonds. If any 2016 Series A Bond shall be paid and discharged pursuant to any provision of this Agreement, so that the 2016 Series A Bond is not thereafter Outstanding, a like principal amount of First Mortgage Bonds shall be deemed fully paid and the obligations of the Company thereunder terminated. Thereupon, the Trustee shall deliver to the First Mortgage Trustee such like principal amount of First Mortgage Bonds for cancellation pursuant to Section 2.22 of the Indenture.

ARTICLE XI MISCELLANEOUS

Section 11.1. Term Of Agreement. This Agreement shall remain in full force and effect from the date hereof to and including the later of the Maturity Date, or until such earlier or later time as all of the 2016 Series A Bonds shall have been fully paid (or provision made for such payment pursuant to the Indenture); provided, however, that this Agreement may be cancelled and terminated before said date if the Company shall prepay all of the Loan pursuant to ARTICLE X hereof; and provided further, however, that all obligations of the Company under ARTICLE V and Section 8.2 hereof: (a) to pay the agreed fees and expenses of the Trustee, the Tender Agent, the Bond Registrar, and any Paying Agent; and (b) to pay any amount required by Section 5.5 hereof shall continue in effect even though 2016 Series A Bonds may no longer be outstanding and this Agreement may otherwise be terminated. All representations and certifications by the Company as to all matters affecting the tax-exempt status of interest on the 2016 Series A Bonds shall be for the equal and ratable benefit, protection, and security of the Holders of the 2016 Series A Bonds and shall survive the termination of this Agreement and all obligations of the Company contained herein relating to indemnification of the Issuer, the Trustee, the Bond Registrar, the Authenticating Agent, the Tender Agent, and any Paying Agent shall survive the termination of this Agreement.

Section 11.2. Notices. All notices, certificates, or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows:

To the Issuer:	County of Trimble, Kentucky P. O. Box 251 123 Church Street Bedford, Kentucky 40006 Attention: County Judge/Executive Telephone: (502) 255 - 7196 Facsimile: (502) 255 - 4618 Email: jp@tcfcgov.com
To the Trustee:	U.S. Bank National Association One Financial Square Louisville, Kentucky 40202 Attention: Corporate Trust Department Telephone: (502) 562-6259 Facsimile: (502) 562-6371 Email: amy.anders@usbank.com

To the Company: Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer
Telephone: (502) 627-4956
Facsimile: (502) 627-4742
Email: Dan.Arbough@lge-ku.com

If to the Remarketing Agent: J.P. Morgan Securities LLC
383 Madison Avenue, 8th Floor
New York, New York 10179
Attn: Municipal Short Term Desk
Telephone: (212) 834-7224
Facsimile: (917) 456-3541
Email: peter.mccarthy@chase.com

With a Copy to: J.P. Morgan Securities LLC
383 Madison Avenue, 8th Floor
New York, New York 10179
Attn: Ivan Naguit
Telephone: (212) 270-1584
Facsimile: (212) 270-9665
Email: ivan.l.naguit@jpmorgan.com

If to First Mortgage Trustee: The Bank of New York Mellon
500 Ross Street, 12th Floor
Pittsburgh, Pennsylvania 15262
Attn: Corporate Trust Administration
Telephone: (412) 236-1215
Facsimile: (412) 234-8377
Email: leslie.lockhart@bnymellon.com

If to the Tender Agent: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

If to the Paying Agent: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

If to the Bond Registrar: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

A duplicate copy of each notice, certificate, or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company, and the Trustee may by notice given hereunder designate any further or different addresses to which subsequent notices, certificates, or other communications shall be sent.

Section 11.3. Binding Effect; Bond Counsel Opinions. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company, and their respective successors and assigns, subject, however, to the limitations contained in Section 7.2, Section 8.1, and Section 8.3 hereof.

Section 11.4. Severability. If any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.5. Amounts Remaining In Bond Fund And Rebate Fund . It is agreed by the parties hereto that any amounts remaining in the Bond Fund upon expiration or sooner termination of the term of this Agreement, as provided in this Agreement, after payment in full of the 2016 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and the reasonable and necessary fees and expenses of the Trustee (including reasonable attorneys' fees and expenses) and any Paying Agent in accordance with the Indenture and the payment in full of all other amounts required to be paid under this Agreement or the Indenture, shall belong to and be paid to the Company by the Trustee. Any amounts remaining in the Rebate Fund at such time shall be held, applied, and disbursed strictly and only in accordance with the provisions of Section 6.07 of the Indenture. Following the payment and discharge of the Refunded 2000 Series A Bonds on their redemption date and the making of provision for payment of the Refunded 2000 Series A Bonds not presented for payment, any remaining moneys in the Prior 2000 Series A Bond Fund shall belong to and be paid to Company by the Prior 2000 Series A Trustee. Following the payment and discharge of the Refunded 2002 Series A Bonds on their redemption date and the making of provision for payment of the Refunded 2002 Series A Bonds not presented for payment, any remaining moneys in the Prior 2002 Series A Bond Fund shall belong to and be paid to the Company by the Prior 2002 Series A Trustee.

Section 11.6. Amendments, Changes, And Modifications . After the issuance of the 2016 Series A Bonds and before payment in full of all 2016 Series A Bonds (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), except as otherwise provided in this Agreement or in the Indenture, this Agreement may not be effectively amended, changed, modified, altered, or terminated, and no provision hereof waived, without the written consent of the Trustee, given in accordance with the Indenture.

Section 11.7. Execution In Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.8. Applicable Law . This Agreement shall be construed, and the obligations, rights, and remedies of the parties under this Agreement are to be determined, in accordance with the laws of the Commonwealth of Kentucky without regard to conflicts of laws principles, except to the extent that the laws of the United States of America may prevail.

Section 11.9. Interpretation. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The words "hereof", "herein", "hereto", "hereby" and "hereunder" refer to this entire Agreement. Unless otherwise noted, all Section and Article references are to sections and articles in this Agreement. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or."

Section 11.10. No Pecuniary Liability Of The Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to a pecuniary liability of the Issuer or a charge upon its general credit or taxing powers. In making such covenants, agreements, or provisions, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided.

Section 11.11. Payments Due On Other Than Business Days. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Agreement, shall not be on a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the date provided in this Agreement, and if done on such succeeding Business Day no interest with respect to such payment shall accrue for the period after such nominal date.

(Signature page to follow)

[SIGNATURE PAGE TO LOAN AGREEMENT]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first written above.

COUNTY OF TRIMBLE, KENTUCKY

(SEAL)

By /s/ Jerry L. Powell
Jerry L. Powell
County Judge/Executive

Attest:

/s/ Susan Barnes
Fiscal Court Clerk

LOUISVILLE GAS AND ELECTRIC COMPANY

(SEAL)

By /s/ Daniel K. Arbough
Daniel K. Arbough
Treasurer

Attest:

/s/ Gerald A. Reynolds
Gerald A. Reynolds
Secretary

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF TRIMBLE)

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 6th day of September, 2016, the foregoing instrument was produced to me in said County by Jerry L. Powell and Susan Barnes, personally known to me and personally known by me to be the County Judge/Executive and the Fiscal Court Clerk, respectively, of the **COUNTY OF TRIMBLE, KENTUCKY**, and acknowledged before me by them and each of them to be their free act and deed as County Judge/Executive and Fiscal Court Clerk of such County, and the act and deed of said County as authorized by an Ordinance of the Fiscal Court of such County.

Witness my hand and seal this 6th day of September, 2016. My commission expires February 26, 2018.

(Seal)

/s/ Mark S. Franklin
Notary Public
State at Large, Kentucky

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF JEFFERSON)

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 6th day of September, 2016, the foregoing instrument was produced to me in said County by Daniel K. Arbough and Gerald A. Reynolds, personally known to me and personally known by me to be the Treasurer and the Secretary, respectively, of **LOUISVILLE GAS AND ELECTRIC COMPANY**, a corporation incorporated under the laws of the Commonwealth of Kentucky, who being by me duly sworn, did say that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said respective persons acknowledged before me said instrument to be the free act and deed of said corporation and to be their free act and deed as such officers of such corporation.

Witness my hand and seal this 6th day of September, 2016. My commission expires June 21, 2018.

(Seal)

/s/ Betty L. Brinly
Notary Public
State at Large, Kentucky

This Instrument Prepared by:

STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street

Louisville, Kentucky 40202

/s/ Mark S. Franklin

Mark S. Franklin

EXHIBIT A
DESCRIPTION OF PROJECT

[See attachment]

TRIMBLE COUNTY GENERATING STATION

LOUISVILLE GAS AND ELECTRIC COMPANY

PART I

THE PROJECT

DESCRIPTION OF CERTAIN POLLUTION CONTROL FACILITIES TO SERVE UNIT NO. 1 AND UNIT NO. 2 AT THE TRIMBLE COUNTY GENERATING STATION OF LOUISVILLE GAS AND ELECTRIC COMPANY

Electrostatic Precipitators

Two electrostatic precipitators will be installed to serve Units 1 and 2 of the Trimble County Generating Station. Units 1 and 2 of the Trimble County Generating Station will be new coal-fired steam electric generating units, and the precipitators will be installed simultaneously with construction and installation of the generating units themselves. The electrostatic precipitators, together with associated structural supports, ductwork and flue-gas duct system, are solely designed and intended for the removal of flyash and particulates from flue gases exiting the Unit 1 and Unit 2 steam boilers. Ductwork incident to Units 1 and 2 of the Trimble County Generating Station will be designed for the purpose of connecting the coal-fired steam boilers to the precipitators, and thereafter to transport flue gases to a sulphur dioxide removal system following flyash and particulate removal. The precipitators are designed to remove over 99% of particulate emissions and flyash when the steam boilers are being operated. The precipitators operate upon the principle of creation of electromagnetic fields which attract and capture particulate matter (flyash) from the flue gases. The flyash is then removed and conveyed by the water sluice effluent system to either the emergency flyash and sludge storage pond, the ash storage pond or the solid waste processing facilities for ultimate disposal.

Cooling Tower

A natural draft cooling tower with closed-loop cooling water systems will be provided to serve Units 1 and 2 of the Trimble County Generating Station. The purpose of the cooling tower is to transfer to the atmosphere the heat absorbed by water circulating through the condensers of

Generating Units 1 and 2, which condense low pressure steam discharged from steam-driven turbines. The closed-loop system with cooling tower is designed to minimize the release of heated waters (thermal pollution) to the Ohio River and is required to be installed in order to conform to applicable water pollution control regulations. The described water pollution control and abatement facility consists of the natural draft cooling tower, pumps, circulating water systems, water pipes, motors, blow-down system, structural supports and functionally related and subordinate equipment and facilities.

Effluent Drain Systems and Sedimentation and Holding Basins

The effluent drainage system consists of a sedimentation basin equipped with monitoring devices and skimmers to remove oil, and an extensive plant area drain and runoff system which carries polluted liquids into the sedimentation basin. Certain chemical wastes will be diverted to the ash storage and disposal pond. Additionally, to provide holding and treatment of liquid effluents created by coal storage areas and limestone storage areas, a limestone and coal pile run-off retention basin is situated between the plant sewage treatment systems and the fuel oil storage area on the one side and the reactant chemical (limestone) storage area and active coal pile storage area on the other side. The purpose of the limestone and coal pile run-off retention basin is to capture liquid wastes emanating from the reactant chemical piles and active coal piles, together with any effluents emanating from the fuel oil storage area and the sewage treatment systems. The retention basin holds and neutralizes such liquid wastes pending their further treatment and disposal. Following neutralization and treatment, polluted liquids from the limestone and coal pile retention basin flow to the sedimentation basin for further neutralization. The sedimentation retention basin is situated between the limestone and coal pile retention basin and the Ohio River. The sedimentation retention basin prevents the discharge of pollutants into the Ohio River by holding and neutralizing such pollutants pending their final disposal.

Sludge Processing and Disposal Facilities

The operation of sulphur dioxide removal systems at the Trimble County Generating Stations will create a substantial amount of sludge wastes. These sludge wastes must be processed by a sludge processing facility into a suitable waste material for landfill disposal. The sludge processing facility will include a flyash collection system which will transport flyash in a dry state from the particulate removal systems (precipitators) to various holding facilities and processing facilities incident to the sludge processing. The sludge wastes from the sulphur dioxide removal systems will be conveyed by pumping from thickener tanks to holding facilities incident to the sludge processing. Thereafter, following dewatering, the sludge wastes will be mixed with flyash waste and a lime catalyst, forming an acceptable solid waste landfill material. The sludge processing facility will be composed of vacuum filters, waste holding silos and facilities, compressors, blowers, mixers, conveyors, structural elements, land, hardening pads, pumps, electrical components, piping, control systems, and functionally related and subordinate facilities and equipment.

A disposal site for the solid waste landfill material resulting from operation of the scrubber sludge processing facility will be developed on property adjacent to the sludge processing facility. The disposal site, consisting of 1,230 acres, is composed of land, a rain water runoff collection basin and diversion system, water monitoring system, water treatment facility, piping, pumps, electrical components, structural elements, control systems, loading, hauling, spreading, and compaction equipment and functionally related and subordinate facilities and equipment.

Ash Storage and Disposal Pond

A large ash storage pond will be constructed and installed, together with appropriate dikes, impervious pond lining, monitoring equipment and other facilities for the purpose of receiving flyash generated by electrostatic precipitators and bottom ash generated by the operation of the coal-fired steam operated generators. The purpose of the ash storage pond is to receive flyash and bottom ash from the operation of the Trimble County Generating Station in order to prevent such air pollutants and solid wastes from being discharged into the environment, including the Ohio River. The ash storage pond will be constantly monitored in order to determine that the impermeability of the ash storage pond remains unimpaired and that no wastes therein are being discharged other than in a controlled manner. Ash wastes in the ash storage pond will be periodically recovered for processing by the sludge processing and disposal facilities or for disposal in the solid waste disposal area adjacent to the Trimble County Generating Plant, consisting of approximately 1,230 acres. The ash storage pond as well as the emergency sludge and flyash storage pond consist of elements including land, transmission facilities to and from the ponds, skimmers, pumps, reclaiming equipment, monitoring equipment and functionally related and subordinate equipment.

Emergency Flyash and Sludge Storage Pond

The emergency flyash and sludge storage pond will be provided for the receipt and collection of scrubber sludge and flyash on an emergency basis. This material will be reclaimed on an intermittent basis for processing by the sludge processing facility and for disposal in the solid waste disposal areas adjacent to the Trimble County Generating Plant. The principal components of the emergency flyash and sludge storage pond will be land, facilities for the transmission of sludge and flyash to and from the pond, reclaiming equipment and functionally related and subordinate equipment.

Sulphur Dioxide Removal Systems: Reactant Reception, Transmission and Preparation Facilities

Two complete sulphur dioxide removal systems (scrubbers) will be provided for Trimble County Generating Station, Units 1 and 2. Following electrostatic precipitation, flue gases will be transmitted from the electrostatic precipitators directly to the scrubbers, where they will be reacted with a liquefied sodium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with the reactant chemical, with resultant formation of non-commercial sodium sulfite and sodium sulfate waste sludges. The sulphur dioxide scrubbers are designed to remove over 85% of airborne sulphur dioxide, together with a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber systems will be composed of the scrubbers themselves, associated ductwork, structural supports and piping, electric elements, reactive tanks to contain the reactive agents and recycling and thickening tanks from which the resulting sludge wastes are withdrawn for final disposal. There will also be acquired and installed certain facilities to prepare reactant materials for use in scrubbers by reducing reactant materials to uniform reactant size, together with pumps, mixers, holding and transport tanks and piping.

The reactant chemical is an integral element in the operation of the sulphur dioxide removal systems. The scrubbers will include facilities designed solely for the receipt, transportation and preparation of reactant chemicals for use in the sulphur dioxide removal systems, which are functionally related and subordinate to such sulphur dioxide removal systems. Such facilities consist of river docking and unloading facilities which will be dedicated to and used only in respect of the

receipt of reactant chemicals for use in the sulphur dioxide removal systems, together with conveyor facilities to convey the reactant chemicals in a dry state to both the reactant chemical storage area and to the reactant slurry preparation area. Crushing and grinding mechanisms designed to prepare the reactant chemicals for use in the sulphur dioxide removal systems will also constitute a part of the systems.

Ash Sluice and Waste Transmission Facilities

A complete system of above-ground piping will be provided for the purpose of conveying flyash, bottom ash and sludge effluents from the operation of precipitators, boilers and sulphur dioxide removal systems to the ash storage pond, the emergency flyash and sludge storage pond or to dewatering facilities. The waste transmission system is water motivated and will consist of piping, pumps, water transmission and sluice facilities and will be connected to and constitute a functional element of the sulphur dioxide removal systems, the electrostatic precipitators, the ash storage pond and the emergency flyash and sludge storage pond. Water used in the ash sluice systems will be recycled from the disposal ponds to eliminate discharge to the Ohio River. Excess water in the system will be treated, as required by applicable regulations. The purpose of the effluent transmission system is to convey sludge wastes, flyash wastes and bottom ash wastes from the facilities where they are generated to neutralization and disposal basins. As such, the ash sluice and waste transmission system is functionally related and subordinate to the air pollution and water pollution control devices consisting of the sulphur dioxide removal systems and the electrostatic precipitators as well as the ash storage pond, the emergency flyash and sludge storage pond and the solid waste processing and disposal facilities.

Contaminated Liquids Transmission and Disposal System

A complete system of underground piping will be constructed and installed for the purpose of capturing all contaminated liquids created as a result of operations of the Trimble County Generating Plant, including contaminations created by oil spillages, metal cleaning, chemical wastes, chemical spills and other liquid pollutants. The liquid waste transmission and disposal system will convey the liquid wastes to one of the sedimentation and ash storage ponds which will be equipped with monitoring devices and skimmers to remove oil. The principal components of the contaminated liquids effluent drain system includes piping, basins, motors, controls and other functionally related and subordinate facilities.

Oil Elimination Systems

Units 1 and 2 of the Trimble County Generating station will include concrete or other appropriate subterranean pits or appropriate systems which will collect waste oils and grease from the transformer areas, fuel oil storage areas and generating units. Skimmers will remove oil from the top of the liquid receptacles in order that waters may be transferred to holding basins and ultimately returned to the Ohio River in uncontaminated condition. Waste polluted oils will be disposed of by other pollution abatement facilities.

Sanitary Facilities

Operation of Units 1 and 2 of the Trimble County Generating Station will require considerable personnel, and appropriate sanitary facilities will be provided to comply with appropriate water pollution laws and regulations. Such facilities shall include sanitary receptacles, pumps, motors, piping and sanitary wastewater treatment facilities.

* * *

PART II

ADDITIONAL POLLUTION CONTROL FACILITIES

The pollution control facilities constituting the Project as described in Part I of this Exhibit A represent a portion of all the pollution control facilities intended to be acquired, constructed and installed at the Trimble County Generating Station of Louisville Gas and Electric Company in Trimble County, Kentucky, which complete pollution control facilities are described in that certain Memorandum of Agreement dated as of February 29, 1980, by and between the County of Trimble, Kentucky, and Louisville Gas and Electric Company, as follows:

DESCRIPTION OF POLLUTION CONTROL

FACILITIES CONTAINED IN

MEMORANDUM OF AGREEMENT

BY AND BETWEEN

THE COUNTY OF TRIMBLE, KENTUCKY

AND

LOUISVILLE GAS AND ELECTRIC COMPANY

TRIMBLE COUNTY GENERATING STATION,

UNITS 1, 2, 3 and 4

Cooling Towers

Natural draft cooling towers with closed-loop cooling water systems will be provided for Trimble County Generating Station, Units 1, 2, 3 and 4. The purpose of the cooling towers is to transfer to the atmosphere the heat absorbed by water circulated through the condensers of the generating units, which condense low pressure steam discharged from the steam driven turbines. The closed-loop system with cooling tower is designed to minimize the release of heated waters (thermal pollution) to the Ohio River and is required in order to conform to applicable water pollution control regulations. The described water pollution control abatement facilities consist of natural draft cooling towers, pumps, circulating water systems, motors, blow-down system, structural supports and functionally related and subordinate equipment and facilities.

Particulate Removal

Particulate removal systems and functionally related facilities, which comply with the appropriate laws and regulations and which, at the time of purchase represent the state of the art, will be installed at Units 1, 2, 3 and 4 of the Trimble County Generating Station in order to reduce and remove from flue gases emitted from boiler, flyash and bottom ash generated by the combustion process of the coal-fired steam boilers. These facilities may consist of electrostatic precipitators, baghouses, and/or other devices.

Flue Gas Duct Systems

Ductwork incident to Unit 1, 2, 3 and 4 of the Trimble County Generating Station designed for the purpose of connecting the coal-fired steam boiler to the flyash particulate removal system, including ductwork utilized to transport cleansed flue gases to a chimney or a sulphur dioxide removal system following flyash removal and functionally related and subordinate facilities, will constitute the Flue Gas Duct System.

Sulphur Dioxide Removal Systems

As and if required by appropriate laws and regulations, complete sulphur dioxide removal systems will be provided for Units 1, 2, 3 and 4 of the Trimble County Generating Station. Following flyash removal, flue gases will be transmitted from the flyash removal systems to the sulphur dioxide removal systems where they will be reacted with reactive agent solutions such as lime, limestone, sodium hydroxide or such other reactant as represents the technology available in the circumstances chosen by the Company. The sulphur dioxide removal systems will be designed to remove a substantial portion of airborne sulphur dioxide, together with a portion of particulate loadings remaining following particulate removal, before emission of cleansed gases into the atmosphere. The sulphur dioxide removal systems are composed of the scrubbers themselves, associated ductwork (including ductwork connecting the scrubbers to a chimney), structural supports and piping, technical elements, reactive tanks, recycling and thickening tanks and reactant reception and disposal facilities. Dependent upon technology, sulphur dioxide removal systems may employ one or more stack gas scrubbing systems (wet or dry) installed in or upon high flue gas diffusers (chimneys) or such other facilities as shall represent the technology for the removal of airborne sulphur dioxide chosen by the Company.

Sludge Processing

Dependent upon the sulphur dioxide removal system technology employed on Units 1, 2, 3 and 4 of the Trimble County Generating Station there may be substantial creation of sludge wastes. These wastes must be processed by a sludge processing facility into a suitable material for landfill disposal. The sludge processing facility will include a dry flyash collection system which will, by pneumatic means, transport flyash in a dry state from the particulate removal systems to various holding silos and processing facilities incident to the sludge processing. The sludge wastes from the sulphur dioxide removal systems will be conveyed by pumping from thickener tanks to holding silos incident to the sludge processing. Thereafter, following dewatering, the sludge wastes will be mixed with the flyash waste and a lime catalyst, forming an acceptable solid waste landfill material. The sludge processing facility is expected to be composed of vacuum filters, waste holding silos, compressors, blowers, mixers, conveyors, structural elements, land, hardening pad, pumps, electrical components, piping, control systems and functionally related and subordinate facilities and equipment.

Sludge Processing Facility Landfill

A disposal site for the solid waste landfill material developed by the scrubber sludge processing facility will be developed on property adjacent to the sludge processing facility. The disposal site is composed of land, a rain water runoff collection basin, and diversion system, water monitoring system, water treatment facility, piping, pumps, electrical components, structural elements, control systems, roads, loading, hauling, spreading and compaction equipment and functionally related and subordinate facilities and equipment.

Emergency Sludge and Flyash Storage Pond

Provisions will be made for the receipt and collection of scrubber sludge and flyash in a storage pond on an emergency basis. This material will be reclaimed on an intermittent basis for processing by the sludge processing facility. The principal components of the emergency storage pond facility will include land, transmission facilities to and from the pond, reclaiming equipment and functionally related and subordinate equipment.

High Flue Gas Diffusers

High flue gas diffusers (chimneys) will be constructed with regard to Units 1, 2, 3 and 4 of the Trimble County Generating Station and such diffusers will be significantly higher than would be required from the standpoint of the interaction of airborne effluents with adjacent structures. Those portions of the chimney which are significantly higher than normally required will be provided to furnish an elevated release of flue gases so as to achieve diffusion and consequent low ground level concentrations of gaseous air effluents.

Ash Sluice and Air Transport Systems

Dependent upon final design of Units 1, 2, 3 and 4 of the Trimble County Generating Station, flyash captured by the particulate removal system and bottom ash captured by the boiler ash hoppers will be transported to ash ponds, ash silos and/or dewatering bins. Water motivated sluice systems and/or air motivated ash transport systems will be used to transport the ash between the collection, storage and disposal locations. Water used in the ash sluice systems will be recycled from the disposal ponds to eliminate discharge to the river. Excess water in the system will be treated, as required for other plant uses and as required by regulations. The principal components of the water motivated systems will include the ash pond, land, piping, pumps, motors, valves, water treatment and other related equipment. The principal components of air motivated systems will include piping, ductwork, blowers, compressors, motors, valves and other related equipment.

Fugitive Dust Elimination Equipment

Dust elimination equipment consisting of strategically located covers and induced draft fans, together with ducting, dust collecting equipment and a wet dust suppression system will be provided at Units 1, 2, 3 and 4 of the Trimble County Generating Station to collect and suppress dust resulting from the coal handling system and scrubber reactant preparation and handling systems thereby prevent its being discharged into the atmosphere.

Oil Elimination System

Units 1, 2, 3 and 4 of the Trimble County Generating Station will include concrete or other appropriate subterranean pits or appropriate systems which will collect waste oils and greases from the transformer areas, fuel oil storage areas and generating units. Skimmers will remove oil from the top of the liquid receptacles in order that waters may be returned to the Ohio River in uncontaminated condition. Waste polluted oils will be disposed of by other pollution abatement facilities.

Effluent Drain Systems

The effluent drainage system consist of a sedimentation basin, equipped with monitoring and skimmers to remove oil and an extensive plant area runoff system which drains into the sedimentation basin and a coal pile and scrubber reactant area runoff basin equipped with monitors

and treatment facilities which after treatment will drain into the sedimentation basin. The principal components of such effluent systems include the land, basins, pipes, pumps, motors and controls.

Metal cleaning chemical wastes will be collected and discharged to the ash pond. The components of this system include sumps, pumps, piping and controls.

Sanitary Facilities

Operation of Units 1, 2, 3 and 4 of the Trimble County Generating Station will require considerable personnel and appropriate sanitary facilities will be provided to comply with appropriate water pollution laws and regulations. Such facilities shall include sanitary receptacles, pumps, motors, piping and sanitary wastewater treatment facilities.

Reactant Preparation and Supply Facilities

The reactant preparation and supply facilities will supply reactant to the sulphur dioxide removal systems on Units 1, 2, 3 and 4 of Trimble County Generating Station. They will include the facilities to receive, unload, process and store the reactant material used to remove sulphur dioxide in the sulphur dioxide removal systems. The reactant preparation and supply facilities will consist of land, dock, mooring cells, unloading equipment, conveying equipment, grinding equipment, mixing equipment, thickening tanks, pumps, motors, piping, valves, controls, structures and other functionally related and subordinate equipment.

* * *

EXHIBIT A-1
DESCRIPTION OF 1990 PROJECT

EXHIBIT NO. 1

**Louisville Gas and Electric Company Project
2016 Series A Bonds
Weighted Average of 120% of Reasonably
Expected Economic Life of Facilities
as of September 15, 2016**

Facilities	Cost (\$)	Calculation Date	Economic Life In Years	120% of Economic Life In Years	Time Elapsed Since Calculation Date In Years Until September 15, 2016	120% of Economic Life Less Time Ellapsed Since Calculation Date	Weighted Calculation
Effluent Drainage System & Retention Basin	101,588.00	12/23/90	50	60	25.7479	34.2521	3,479,597.74
Emergency Neutralization and Storage Pond for Flyash and Bottom Ash Liquid Effluent	288,257.00	12/23/90	50	60	25.7479	34.2521	9,873,394.56
Neutralization and Disposal Pond for Flyash and Bottom Ash Liquid Effluent	1,340,514.00	12/23/90	50	60	25.7479	34.2521	45,915,358.98
Natural Draft Water Cooling Tower	16,934,126.00	12/23/90	50	60	25.7479	34.2521	580,028,611.65
Reactant Unloading and Transmission Facilities for Sulphur Dioxide Removal System	7,969,057.00	12/23/90	50	60	25.7479	34.2521	272,956,577.02
Electrostatic Precipitator	14,816,472.00	12/23/90	50	60	25.7479	34.2521	507,494,610.81
Sulphur Dioxide Removal System	59,637,981.00	12/23/90	50	60	25.7479	34.2521	2,042,723,393.05
Limestone Preparation for Sulphur Dioxide Removal System	9,471,400.00	12/23/90	50	60	25.7479	34.2521	324,414,911.78
Ash Sluice and Waterborne Waste Transmission Facilities	8,260,007.00	12/23/90	50	60	25.7479	34.2521	282,922,212.37
Contaminated Liquids and Transmission and Disposal Systems	2,251,874.00	12/23/90	50	60	25.7479	34.2521	77,131,311.64
Sanitary Facilities	230,522.00	12/23/90	50	60	25.7479	34.2521	7,895,852.18
Additional Auxiliary and Station Power Facilities for Pollution Control Equipment	6,417,000.00	12/23/90	50	60	25.7479	34.2521	219,795,435.62
Total	127,718,798.00						4,374,631,267.39
Remaining reasonably expected economic life (in years) from September 15, 2016							34.2521

The Calculation Date is not later than the dates the Facilities were placed into service for federal income tax purposes. No costs attributable to land were financed with proceeds of the 1980 Series A Bonds or the 1982 Series A Bonds, which originally financed the Facilities. Capitalized interest and investment earnings have not been factored into the calculation as these items are allocable ratably over all of the Facilities. Calculations are on the basis of a 360-day year and a 30-day month. The weighted average of 120% of reasonably expected remaining Economic Life Less Time Elapsed Since Calculation Dates is not less than 27.9583 years.

All of the above assets comprise part of Unit #1 at the Trimble County Generating Station.

LOUISVILLE GAS AND ELECTRIC COMPANY

TO

THE BANK OF NEW YORK MELLON,

Trustee

**Supplemental Indenture No. 5
dated as of September 1, 2016**

**Supplemental to the Indenture
dated as of October 1, 2010**

**Establishing
First Mortgage Bonds, Collateral Series 2016TCA**

SUPPLEMENTAL INDENTURE NO. 5

SUPPLEMENTAL INDENTURE No. 5, dated as of the first day of September, 2016, made and entered into by and between LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having its principal corporate offices at 220 West Main Street, Louisville, Kentucky 40202 (hereinafter sometimes called the “Company”), and THE BANK OF NEW YORK MELLON, a New York banking corporation, having its corporate trust office at 500 Ross Street, 12th Floor, Pittsburgh, Pennsylvania 15262 and having its principal place of business at 225 Liberty Street, New York, New York 10281 (hereinafter sometimes called the “Trustee”), as Trustee under the Indenture, dated as of October 1, 2010 (hereinafter called the “Original Indenture”), between the Company and said Trustee, as heretofore supplemented, this Supplemental Indenture No. 5 being supplemental thereto. The Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 5 are hereinafter sometimes, collectively, called the “Indenture.”

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on such Securities.

The Company has heretofore executed and delivered supplemental indentures for the purpose of creating series of Securities as set forth in Exhibit A hereto.

The Original Indenture and Supplemental Indentures No. 1, No. 2 and No. 3, and financing statements in respect thereof, have been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Supplemental Indenture No. 4.

Supplemental Indenture No. 4 has been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Exhibit B hereto.

Pursuant to Article Three of the Original Indenture, the Company wishes to establish a series of Securities, such series of Securities to be hereinafter sometimes called “Securities of Series No. 7”.

As contemplated in Section 301 of the Original Indenture, the Company further wishes to establish the designation and certain terms of the Securities of Series No. 7. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 5 to establish the designation and certain terms of such series of Securities and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 5 a valid agreement of the Company, and to make the Securities of Series No. 7 valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 5 WITNESSETH, that, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and in the Indenture contained, the Company hereby grants, bargains, sells, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in and lien on, the real property specifically referred to in Exhibit C attached hereto and incorporated herein by reference and all right, title and interest of the Company in and to all property personal and mixed located thereon (other than Excepted Property), as and to the extent, and subject to the terms and conditions, set

forth in the Original Indenture, as heretofore amended; and it is further mutually covenanted and agreed, for the benefit of the Holders of the Securities of Series No. 7, as follows:

ARTICLE ONE

SECURITIES OF SERIES NO. 7

SECTION 101. Creation of Series No. 7.

There is hereby created a series of Securities designated "First Mortgage Bonds, Collateral Series 2016TCA", and the Securities of such series shall:

(a) be issued in the aggregate principal amount of \$125,000,000 and shall be limited to such aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture);

(b) be dated September 15, 2016;

(c) have a Stated Maturity of September 1, 2044, subject to prior redemption by the Company;

(d) have such additional terms as are established in an Officer's Certificate as contemplated in Section 301 of the Original Indenture; and

(e) be in substantially the form or forms established therefor in an Officer's Certificate, as contemplated by Section 201 of the Original Indenture.

ARTICLE TWO

MISCELLANEOUS PROVISIONS

SECTION 201. Single Instrument.

This Supplemental Indenture No. 5 is an amendment and supplement to the Original Indenture as heretofore amended and supplemented. As amended and supplemented by this Supplemental Indenture No. 5, the Original Indenture, as heretofore supplemented, is in all respects ratified, approved and confirmed, and the Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 5 shall together constitute the Indenture.

SECTION 202. Trustee.

The Trustee accepts the amendment of the Original Indenture effected by this Supplemental Indenture No. 5 upon the terms and conditions set forth in the Original Indenture, as heretofore amended and supplemented, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Original Indenture, as heretofore amended and supplemented, and as hereby amended. The Recitals of the Company contained in this Supplemental Indenture No. 5 shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness and makes no representations as to the validity or sufficiency of this Supplemental Indenture No. 5.

SECTION 203. Effect of Headings.

The Article and Section headings in this Supplemental Indenture No. 5 are for convenience only and shall not affect the construction hereof.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 5 to be duly executed as of the day and year first written above.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

ATTEST:

/s/ Gerald A. Reynolds
Name: Gerald A. Reynolds
Title: General Counsel, Chief Compliance
Officer and Corporate Secretary

[Signature Page to Supplemental Indenture No. 5 – Louisville Gas and Electric Utilities Company]

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid
Name: Francine Kincaid
Title: Vice President

[Signature Page to Supplemental Indenture No. 5 – Louisville Gas and Electric Company]

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 1st day of September, 2016, before me, a notary public, the undersigned, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of THE BANK OF NEW YORK MELLON, a corporation and that she, as Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

By: /s/ Christopher J. Traina
Christopher J. Traina
Notary Public – State of New York
No. 01TR6297825
Qualified in Queens County
Certified in New York County
My Commission Expires
March 03, 2018

The Bank of New York Mellon hereby certifies that its precise name and address as Trustee hereunder are:

The Bank of New York Mellon
500 Ross Street, 12th Floor
Pittsburgh, Pennsylvania 15262
Attn: Corporate Trust Administration

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid
Name: Francine Kincaid
Title: Vice President

CERTIFICATE OF PREPARER

The foregoing instrument was prepared by:

James J. Dimas, Senior Corporate Attorney
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

/s/ James J. Dimas
James J. Dimas

[Signature Page to Supplemental Indenture No. 5 – Louisville Gas and Electric Utilities Company]

LOUISVILLE GAS AND ELECTRIC COMPANY

**Bonds Issued and Outstanding
under the Indenture**

<u>Supplemental Indenture No.</u>	<u>Dated as of</u>	<u>Series No.</u>	<u>Series Designation</u>	<u>Date of Securities</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding¹</u>
1	October 15, 2010	1	Collateral Series 2010	October 20, 2010	\$574,304,000	\$574,304,000
2	November 1, 2010	2	1.625% Series due 2015	November 16, 2010	\$250,000,000	None
		3	5.125% Series due 2040	November 16, 2010	\$285,000,000	\$285,000,000
3	November 1, 2013	4	4.65% Series due 2043	November 14, 2013	\$250,000,000	\$250,000,000
4	September 1, 2015	5	3.300% Series due 2025	September 28, 2015	\$300,000,000	\$300,000,000
		6	4.375% Series due 2045	September 28, 2015	\$250,000,000	\$250,000,000

¹ As of September 1, 2016.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Filing and Recording
of
Supplemental Indenture No. 4, dated as of September 1, 2015,
to
Indenture, dated as of October 1, 2010**

COUNTY	MORTGAGE BOOK	PAGE NUMBER
Breckenridge	420	669
Bullitt	M1609	744-757
Clark	M813	386-399
Green	M298	161-174
Hardin	2140	938
Hart	M363	496-509
Henry	M334	55-68
Jefferson	14276	835
Larue	343	631
Meade	M780	449-462
Metcalfe	166	620
Mulenberg	M670	60-73
Nelson	M1078	190-203
Oldham	M2177	817-830
Shelby	M986	576-589
Trimble	M205	401-414

LOUISVILLE GAS AND COMPANY

REAL PROPERTY

Schedule of real property owned in fee located in the Commonwealth of Kentucky

That certain real property located in Jefferson County, Kentucky, as described below per the physical survey prepared by David L. King II, AGE Engineering Services, Inc., Ky. R.L.S. #3916, dated the 4th day of December, 2015, and a copy of which survey plat is also attached hereto as Exhibit B to the Deed of record in Deed Book 10523, Page 416 in the Office of the Clerk of Jefferson County, Kentucky:

BEGINNING at a 2 ½" x ¼" Mag nail with 2" Aluminum Washer stamped "PLS 3916" set in the centerline of Billtown Road, said Mag Nail being the Northwest Comer of the property being surveyed and having Kentucky State Plane North Zone Coordinates (NAD83) of N=241,849.167 E=1,263,424.408 and said Mag Nail being approximately 435' North of the Intersection of centerlines of Billtown Road and Arbor Wood Drive, lying in Jefferson County, Kentucky and being the POINT OF BEGINNING for this description;

Thence leaving the centerline of Billtown Road and with first right-of-way dedicated to Billtown Road per Plat recorded in Deed Book 9777, Page 541, secondly the Southeastern line of Larry David Tyler et. al. (D.B. 9777, Page 547) and thirdly right-of-way rededicated to Tarrence Road per Plat recorded in Deed Book 9777, Page 541, N54°34'50"E- passing an iron pin found PLS# 3125 at 60.68 feet and continuing at the same bearing an additional 121.72 feet to an iron pin found PLS# 3125 and continuing an additional 439.55 feet for a total distance of 621.95 feet to a 2 ½" x ¼" Mag nail set with a 2" Aluminum Washer stamped "PLS 3916" in the asphalt pavement of Tarrence Road, said nail being on the Southeastern line of Tract IV dedicated to Tarrence Road right-of-way by plat recorded in Deed Book 9777, Pg. 541;

Thence leaving Tract IV dedicated to Tarrence Road right-of-way and with the southern line of first David B. Shelton (D.B. 6821, Pg. 444), secondly David Shelton (D.B. 7553, Pg. 67), thirdly Stanley E. Lanham (D.B. 6026, Pg. 682) and fourthly Mark Edward Johnson (D.B. 7832, Pg. 180), S88°37'47"E - passing an iron witness pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3916, as will be typical for all set comer monuments), at 43.94 feet and continuing at the same bearing 644.30 feet to a ¾" Iron pipe found and continuing an additional 92.35 feet for total distance of 730.59 feet to a Stone Monument found, said stone being a 3-way corner of the tract being surveyed, Mark Edward Johnson and Lot 102 of Billtown Farms – Section 1 (Plat Book 47, Pg. 83);

Thence leaving the line of Mark Edward Johnson and with the Western line of first Lot 102 of Billtown Farms – Section 1 and secondly Lot 63 of Billtown Farms – Section 1 (Plat Book 47, Pg. 82), S22°02'13"W- passing a 5/8" Rebar No ID Cap at 417.01 feet and continuing at the same being 123.01 feet to an Iron Pin Found PLS# 3476 and continuing an additional 101.68 feet for a total distance of 641.70 feet to an Iron Pin Found PLS# 2719, said pin being on the Western boundary line of Lot 63 of Billtown Farms Section 1 and being the Northeast Corner of Deborah M. Pinson (D.B. 7298, Pg. 841);

C-1

Thence leaving the line of Lot 63 of Billtown Farms Section 1 and with the line of Deborah M. Pinson, S84°43'26"W – 512.75 feet to a ½" Rebar Found (PLS# 3492 Winkle), said pin being on the Northern boundary line of Pinson and being the Southeast corner of Patrick McGlinchey (D.B. 9844, Pg. 269);

Thence leaving the line of Pinson and with the line of McGlinchey, N14°09'28"W – 124.16 feet to a ½" Rebar Found (PLS# 3492 Winkle), said pin being the Northeast corner of McGlinchey and being the Southeast corner of Louisville Water Company (D.B. 4046, Pg. 577);

Thence leaving the line of McGlinchey and with the line of Louisville Water Company, N26°04'02"W – passing iron pin found no ID Cap at 82.69 feet and continuing at the same bearing 109.82 feet for a total distance of 192.51 feet to a ½" Rebar Found, said pin being the Northeast Corner of the Louisville Water Company;

Thence continuing with the line of the Louisville Water Company, S84°43'26"W – passing an iron witness pin set at 309.26 feet and continuing at the same bearing and additional 89.08 feet for a total distance of 398.34 feet to a 2 ½" x ¼" Mag nail with 2" Aluminum Washer stamped "PLS 3916" set in the centerline of Billtown Road;

Thence leaving the line of Louisville Water Company and with the centerline of Billtown Road, N29°08'38"W – 49.79 feet to the Point of Beginning and containing 11.974 acres by survey.

All bearing are referenced to Grid North of the Kentucky State Plane Coordinate System – North Zone (NAD 83).

Being the same property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated December 21, 2015, of record in Deed Book 10523, Page 416, in the Office of the County Clerk of Jefferson County, Kentucky.

LOUISVILLE GAS AND ELECTRIC COMPANY

OFFICER'S CERTIFICATE

(under Sections 201 and 301 of the Indenture, dated as of October 1, 2010)

**Establishing the Form and Certain Terms of the
First Mortgage Bonds, Collateral Series 2016TCA**

The undersigned Daniel K. Arbough, the Treasurer of LOUISVILLE GAS AND ELECTRIC COMPANY (the "Company"), in accordance with Sections 201 and 301 of the Indenture, dated as of October 1, 2010 (the "Original Indenture"), as amended and supplemented by various instruments including Supplemental Indenture No. 5, dated as of September 1, 2016 (as so amended and supplemented, the "Indenture"), of the Company to The Bank of New York Mellon, trustee (the "Trustee"), does hereby establish, for the Securities of Series No. 7, established in Supplemental Indenture No. 5, the terms and characteristics set forth in this Officer's Certificate (capitalized terms used herein and not defined herein having the meanings specified in the Original Indenture).

Set forth below are the terms and characteristics of the aforesaid series of Securities referred to in clauses (a) through (u) in the third paragraph of Section 301 of the Indenture (the lettered clauses set forth herein corresponding to such clauses in said Section 301):

- (a) the title of the Securities of such series shall be "First Mortgage Bonds, Collateral Series 2016TCA" (the "Bonds");
- (b) the aggregate principal amount of Bonds which may be authenticated and delivered under the Indenture shall be limited to \$125,000,000 as and to the extent set forth in Supplemental Indenture No. 5; the Stated Maturity of the Bonds will be September 1, 2044;
- (c)
 - (1) the Bonds are to be issued and delivered to, and registered in the name of U.S. Bank National Association, as trustee (the "Revenue Bond Trustee") under an indenture of trust dated as of September 1, 2016 (the "Revenue Bond Indenture"), which relates to Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) (the "Revenue Bonds") issued by the County of Trimble, Kentucky (the "Governmental Issuer");
 - (2) the Bonds will be issued and delivered to, and registered in the name of, the Revenue Bond Trustee under the Revenue Bond Indenture to convey the benefit of the lien of the Indenture to such Revenue Bond Trustee for the benefit of the holders of the Revenue Bonds issued and outstanding thereunder. All payments of principal of and interest on the Bonds shall be payable to the Revenue Bond Trustee as the registered holder of the Bonds;
- (d) the principal of the Bonds shall be due and payable on the applicable Stated Maturity date specified in clause (b); and the Company shall not have the right to extend the Maturity of the Bonds as contemplated in Section 301(d) of the Original Indenture;
- (e) the Bonds shall bear interest at the same rate borne from time to time by the Revenue Bonds; provided, however, that if such Revenue Bonds shall bear interest at more than one rate, the

rate of interest borne by the Bonds shall be such composite rate as shall produce the same dollar amount of accrued interest on such Bonds as is produced on such Revenue Bonds; and provided, further, that interest on the Bonds shall not commence to accrue unless and until:

- (1) the Bonds are to be mandatorily redeemed as contemplated in clause (g), or
- (2) all Securities Outstanding under the Indenture shall have become immediately due and payable pursuant to Section 1002 of the Original Indenture,

and, in either such event, interest shall commence to accrue from the last date to which interest on the Revenue Bonds shall have been paid in full (the "Initial Interest Accrual Date"), as specified by the Revenue Bond Trustee in a written notice to the Trustee; interest on the Bonds, having commenced to accrue as aforesaid, shall be and remain immediately due and payable until paid in full (unless the mandatory redemption or acceleration giving rise to the accrual of interest as aforesaid shall have been rescinded or annulled, in which event such accrual of interest shall automatically be rescinded and annulled); and in no event shall the amount of interest accrued on the Bonds exceed the amount of interest accrued on the Revenue Bonds; and the Company shall not have any right to extend any interest payment periods for the Bonds as contemplated in Sections 301(e) and 312 of the Original Indenture;

- (f) the Corporate Trust Office of the Trustee in Pittsburgh, Pennsylvania shall be the office or agency of the Company at which the principal of and any premium and interest on the Bonds at Maturity shall be payable, at which registration of transfers and exchanges of the Bonds may be effected and at which notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and the Trustee will initially be the Security Registrar and the Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such office or agency and such agent;
- (g) If the Revenue Bonds shall have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture (which Event of Default shall have been caused by an event of default under the loan agreement dated as of September 1, 2016 between the Company and the Governmental Issuer relating to the Revenue Bonds (the "Agreement") that has resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto) and if all Securities Outstanding under the Indenture shall not have become immediately due and payable following an Event of Default under the Indenture, the Bonds shall be redeemed by the Company, in whole, at a redemption price equal to 100% of the principal amount thereof plus accrued interest from the Initial Interest Accrual Date to the date of redemption upon receipt by the Company and the Trustee of a written demand for such redemption (a "Redemption Demand") executed and delivered by the Revenue Bond Trustee and stating (1) that such Revenue Bonds have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture, (2) that such Event of Default was caused by an event of default under the Agreement that resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto, (3) that the redemption of the Bonds is thereby demanded by such Revenue Bond Trustee and (4) the last date to which interest on such Revenue Bonds has

been paid in full; provided, however, that any rescission or annulment of the acceleration of maturity of the Revenue Bonds shall constitute the rescission and annulment of the Company's obligation to redeem the Bonds. No notice of any such redemption shall be required to be given;

- (h) inapplicable;
- (i) the Bonds shall be issuable in denominations of \$1,000 and any integral multiple thereof;
- (j) inapplicable;
- (k) inapplicable;
- (l) inapplicable;
- (m) inapplicable;
- (n) inapplicable;
- (o) inapplicable;
- (p) inapplicable;
- (q) the Bonds shall be non-transferable except to a successor Revenue Bond Trustee under the Revenue Bond Indenture; no service or other charge shall be made for any registration of transfer or exchange of the Bonds;
- (r) inapplicable;
- (s) inapplicable;
- (t) inapplicable; and
- (u)
 - (1) anything herein to the contrary notwithstanding, the obligation of the Company to make any payment of the principal of or interest on the Bonds shall be deemed to be satisfied and discharged to the extent of the corresponding payment (A) made by the Company to the Revenue Bond Trustee pursuant to the Agreement and/or (B) made with moneys on deposit in any fund or account maintained under such Revenue Bond Indenture for the payment of the principal of or interest on the Revenue Bonds;
 - (2) the Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Bonds as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Revenue Bond Trustee, as Holder of such Bonds, signed by an authorized officer thereof, stating that the principal of and/or interest on such Bonds has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment;

- (3) The Trustee may conclusively presume that all statements made in a Redemption Demand are true and correct and, unless advised to the contrary by the Revenue Bond Trustee in a written notice to the Trustee, that no redemption demanded in a Redemption Demand has been rescinded, and shall be entitled to receive, and to conclusively rely on, a written notice from the Revenue Bond Trustee as to the amount of interest accruing on the Bonds from time to time; and
 - (4) except as otherwise determined by the proper officers of the Company and established in one or more Officer's Certificates supplemental to this Officer's Certificate, the Bonds shall be substantially in the form of the Bond attached hereto as Exhibit A, which form is hereby authorized and approved, and shall have such further terms as are set forth in such form.
-

IN WITNESS WHEREOF, I have executed this Officer's Certificate this 15th day of September, 2016.

/s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

ATTEST:

/s/ Gerald A. Reynolds
Name: Gerald A. Reynolds
Title: General Counsel, Chief Compliance
Officer and Corporate Secretary

[Signature Page to Officer's Certificate Under Sections 201 and 301 of the Indenture]

THIS SECURITY IS NON-TRANSFERABLE EXCEPT TO A SUCCESSOR REVENUE BOND TRUSTEE UNDER THE REVENUE BOND INDENTURE SPECIFIED BELOW.

[FORM OF BOND]

No.

Principal Amount: \$

Stated Maturity:

Governmental Issuer: County of Trimble, Kentucky

Revenue Bonds: Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project)

Revenue Bond Indenture: Indenture of Trust, dated as of September 1, 2016, between the Governmental Issuer and the Revenue Bond Trustee

Revenue Bond Trustee: _____, as trustee under the Revenue Bond Indenture

LOUISVILLE GAS AND ELECTRIC COMPANY

FIRST MORTGAGE BOND, COLLATERAL SERIES 2016TCA

LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein referred to as the "Company," which term includes any Successor Corporation under the Indenture referred to below), for value received, hereby promises to pay to the Revenue Bond Trustee specified above, the principal sum of

(\$ _____) Dollars

on the Stated Maturity specified above, and to pay interest from the Initial Interest Accrual Date (as defined below) on said principal sum at the rate from time to time borne by the Revenue Bonds specified above; provided, however, that if such Revenue Bonds shall bear interest at more than one rate, the rate of interest borne by this Security shall be such composite rate as shall produce the same dollar amount of accrued interest on this Security as is produced on such Revenue Bonds. No interest will accrue on the Securities with respect to the day on which the Securities mature.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication:

THE BANK OF NEW YORK MELLON, as Trustee

By: _____
Authorized Signatory

Interest on this Security will be computed on the same basis as interest on the Revenue Bonds specified above as provided in the Revenue Bond Indenture specified above.

Interest on the Securities of this series shall not commence to accrue unless and until:

- (1) the Securities of this series are to be mandatorily redeemed as contemplated below, or
- (2) all Securities Outstanding under the Indenture referred to below shall have become immediately due and payable pursuant to Section 1002 of the Original Indenture (as defined below),

and, in either such event, interest shall commence to accrue from the last date to which interest on the Revenue Bonds specified above shall have been paid in full (the "Initial Interest Accrual Date"), as specified by the Revenue Bond Trustee specified above in a written notice to the Trustee.

Payment of the principal of and premium, if any, and interest at Maturity on this Security shall be made upon presentation of this Security at the corporate trust office of The Bank of New York Mellon in New York, New York, or at such other office or agency as may be designated for such purpose by the Company from time to time, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, and payment of interest, if any, on this Security (other than interest payable at Maturity) shall be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

This Security is one of a duly authorized issue of Securities of the Company (herein called the "Securities"), issued and issuable in one or more series under an Indenture, dated as of October 1, 2010 (herein called the "Original Indenture" and, together with any amendments or supplements thereto and the Officer's Certificate establishing the terms of the Securities of this series, the "Indenture," which term shall have the meaning assigned to it in the Original Indenture), between the Company and The Bank of New York Mellon, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including Supplemental Indenture No. 5 thereto, for a statement of the property mortgaged, pledged and held in trust, the nature and extent of the security, the conditions upon which the lien of the Indenture may be released and the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. The acceptance of this Security by the Holder hereof shall be deemed to constitute the consent and agreement by such Holder to all of the terms and provisions of the Indenture. This Security is one of the series designated on the face hereof.

If the Revenue Bonds specified above shall have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture specified above (which Event of Default shall have been caused by an event of default under the Agreement (as defined in the Revenue Bond Indenture specified above) between the Company and the Governmental Issuer specified above (the "Agreement") that has resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto) and if all Securities Outstanding under the Indenture shall not have become immediately due and payable following an Event of Default under the Indenture, the Bonds of this series shall be redeemed by the Company, in whole, at a redemption price equal to 100% of the principal amount thereof plus accrued interest from the Initial Interest Accrual Date to the date of redemption upon receipt by the Company and the Trustee of a written demand for such redemption (a "Redemption Demand") executed and delivered by the Revenue Bond Trustee specified above and stating (a) that such Revenue Bonds have become immediately due and payable due to the occurrence and continuance of an Event of Default under such Revenue Bond Indenture, (b) that such Event of Default was caused by an event of default under the loan agreement between the

Company and such Governmental Issuer that resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto, (c) that the redemption of the Bonds of this series is thereby demanded by such Revenue Bond Trustee and (d) the last date to which interest on such Revenue Bonds has been paid in full.

If an Event of Default with respect to the Securities of this series shall occur and be continuing, the principal of this Security may be declared due and payable in the manner and with the effect provided in the Indenture.

Anything herein to the contrary notwithstanding, the obligation of the Company to make any payment of the principal of or interest on the Bonds of this series shall be deemed to be satisfied and discharged to the extent of the corresponding payment (a) made by the Company to the Revenue Bond Trustee specified above pursuant to the Agreement and/or (b) made with moneys on deposit in any fund or account maintained under such Revenue Bond Indenture for the payment of the principal of or interest on the Revenue Bonds.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Securities of this series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Revenue Bond Trustee specified above, signed by an authorized officer thereof, stating that the principal of and/or interest on the Securities of this series has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment.

The Trustee may conclusively presume that all statements made in a Redemption Demand are true and correct and, unless advised to the contrary by the Revenue Bond Trustee specified above in a written notice to the Trustee, that no redemption demanded in a Redemption Demand has been rescinded, and shall be entitled to receive, and to conclusively rely on, a written notice from such Revenue Bond Trustee as to the amount of interest accruing on the Securities of this series from time to time.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of all series affected at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (a) such Holder shall have previously given the Trustee written notice of a continuing Event of Default; (b) the Holders of 25% in aggregate principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity; (c) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Securities a direction inconsistent with such request; and (d) the Trustee shall have failed to institute any such proceeding for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit

instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this series are issuable only in registered form without coupons, and in denominations of \$1,000 and integral multiples thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder hereof or its attorney duly authorized in writing, and thereupon one or more new Securities of this series, of authorized denominations and of like tenor and aggregate principal amount, shall be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of the same series, of any authorized denominations, as requested by the Holder surrendering the same, and of like tenor upon surrender of the Security or Securities to be exchanged at the office or agency of the Company for such purpose.

No service or other charge shall be made for any such registration of transfer or exchange.

Anything herein to the contrary notwithstanding, this Security shall not be transferable except to a successor Revenue Bond Trustee under the Revenue Bond Indenture specified above.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes (subject to Sections 305 and 307 of the Indenture), whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute), except to the extent that the Trust Indenture Act shall be applicable and except to the extent that the law of any other jurisdiction shall mandatorily govern.

As used herein, "Business Day," means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies in The City of New York, New York, or other city in which a paying agent for this Security is located, are generally authorized or required by law, regulation or executive order to remain closed. All other terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

As provided in the Indenture, no recourse shall be had for the payment of the principal of or premium, if any, or interest on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under the Indenture, against, and no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, member, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any

assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture and all the Securities are solely corporate obligations and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of the Indenture and the issuance of the Securities.

Unless the certificate of authentication hereon has been executed by the Trustee referred to herein by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Date of Security:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

Name:

Title:

ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

[please insert social security or other identifying number of assignee]

[please print or typewrite name and address of assignee]

the within Security of LOUISVILLE GAS AND ELECTRIC COMPANY and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said Security on the books of the within-mentioned Company, with full power of substitution in the premises.

Dated: _____

[signature of registered holder]

Notice: The signature to this assignment must correspond with the name as written upon the face of the Security in every particular without alteration or enlargement or any change whatsoever.

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: November 01, 2016 (period: September 30, 2016)

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

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2016

OR

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

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

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

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

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

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

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

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

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

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

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

PPL Corporation	Common stock, \$0.01 par value, 679,627,323 shares outstanding at October 26, 2016.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 26, 2016.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 26, 2016.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 26, 2016.

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

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

FORM 10-Q
FOR THE QUARTER ENDED September 30, 2016

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides support services and corporate functions such as financial, supply chain, human resources and facilities management services primarily to PPL Electric and its affiliates.

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global and parent to WPD plc.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

2015 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2015.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to the Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

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

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the Alternative Energy Portfolio Standard (AEPS).

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

AOCI - accumulated other comprehensive income or loss.

Article 50 of the Lisbon Treaty - The Treaty of Lisbon is an international agreement which amends the two treaties which form the constitutional basis of the European Union, and came into force on December 1, 2009. Under Article 50 of this treaty, any member state of the European Union may decide to withdraw from the Union in accordance with its own constitutional requirements.

ARO - asset retirement obligation.

ATM Program - At-the-Market stock offering program.

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

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

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

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

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

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

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

DNO - Distribution Network Operator in the U.K.

DPCR4 - Distribution Price Control Review 4, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2005.

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

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

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

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

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

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

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

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

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

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

GBP - British pound sterling.

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

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

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

LCIDA - Lehigh County Industrial Development Authority.

LIBOR - London Interbank Offered Rate.

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

MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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

NSR - The new source review provisions of the Clean Air Act that impose stringent emission control requirements on new and modified sources of air emissions that result in emission increases beyond thresholds allowed by the Clean Air Act.

OCI - other comprehensive income or loss.

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

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

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

PP&E - property, plant and equipment.

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

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

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures, which have continued from April 2015 under RIIO-ED1. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

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

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

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

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD which commenced April 1, 2015.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy other than the competitive power generation business contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

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

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

S&P - Standard & Poor's Ratings Services, a credit rating agency.

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

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

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

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

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

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

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

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

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

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

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

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2015 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- challenges by intervenors to the return on equity granted in existing rate structures;
- fuel supply and cost;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting transmission and distribution operations, and customer energy use;
- availability and operating costs of existing generation facilities;
- the duration of and cost associated with outages at our generating facilities;
- generation, transmission and distribution system conditions, and operating costs;
- expansion of alternative and distributed sources of electricity generation and storage;
- collective labor bargaining negotiations;
- laws or regulations to reduce emissions of "greenhouse" gases or physical effects of climate change;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- the effect of the June 23, 2016 referendum in the U.K. to withdraw from the European Union;
- our ability to attract and retain qualified employees;
- volatility in demand for electricity;
- market prices of commodity inputs for ongoing capital expenditures or key operational needs;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the achievement of performance targets set by Ofgem;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions.

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues	\$ 1,889	\$ 1,878	\$ 5,685	\$ 5,889
Operating Expenses				
Operation				
Fuel	227	228	607	695
Energy purchases	151	177	531	676
Other operation and maintenance	417	482	1,292	1,405
Depreciation	232	226	692	658
Taxes, other than income	76	79	229	241
Total Operating Expenses	1,103	1,192	3,351	3,675
Operating Income	786	686	2,334	2,214
Other Income (Expense) - net	49	75	284	61
Interest Expense	223	221	671	645
Income from Continuing Operations Before Income Taxes	612	540	1,947	1,630
Income Taxes	139	144	510	432
Income from Continuing Operations After Income Taxes	473	396	1,437	1,198
Income (Loss) from Discontinued Operations (net of income taxes) (Note 8)	—	(3)	—	(915)
Net Income	\$ 473	\$ 393	\$ 1,437	\$ 283
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes:				
Basic	\$ 0.70	\$ 0.59	\$ 2.12	\$ 1.78
Diluted	\$ 0.69	\$ 0.59	\$ 2.11	\$ 1.78
Net Income:				
Basic	\$ 0.70	\$ 0.58	\$ 2.12	\$ 0.42
Diluted	\$ 0.69	\$ 0.58	\$ 2.11	\$ 0.42
Dividends Declared Per Share of Common Stock	\$ 0.38	\$ 0.3775	\$ 1.14	\$ 1.1225
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	678,114	670,763	676,905	668,731
Diluted	680,348	673,702	679,969	671,254

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 473	\$ 393	\$ 1,437	\$ 283
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$2), (\$3), (\$4), (\$2)	(641)	52	(837)	(97)
Available-for-sale securities, net of tax of \$0, \$0, \$0, (\$9)	—	—	—	7
Qualifying derivatives, net of tax of (\$16), \$11, (\$9), \$4	62	(19)	57	8
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$4	—	—	—	(6)
Net actuarial gain (loss), net of tax of \$4, \$0, \$3, (\$36)	(6)	—	(4)	52
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$0, \$0, \$0, \$2	—	—	—	(2)
Qualifying derivatives, net of tax of \$17, (\$3), \$15, (\$23)	(69)	10	(62)	20
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$1	—	—	(1)	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), \$0, (\$1), \$0	—	—	1	—
Net actuarial loss, net of tax of (\$10), (\$10), (\$27), (\$35)	31	35	94	111
Total other comprehensive income (loss)	(623)	78	(752)	92
Comprehensive income (loss)	\$ (150)	\$ 471	\$ 685	\$ 375

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 1,437	\$ 283
(Income) Loss from discontinued operations (net of income taxes)	—	915
Income from continuing operations (net of income taxes)	1,437	1,198
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by operating activities - continuing operations		
Depreciation	692	658
Amortization	54	46
Defined benefit plans - expense (income)	(29)	44
Deferred income taxes and investment tax credits	436	359
Unrealized (gains) losses on derivatives, and other hedging activities	107	(17)
Stock-based compensation expense	23	26
Other	(12)	9
Change in current assets and current liabilities		
Accounts receivable	(29)	(5)
Accounts payable	(40)	(180)
Unbilled revenues	32	91
Fuel, materials and supplies	8	60
Prepayments	(34)	(43)
Taxes payable	40	(142)
Regulatory assets and liabilities, net	(32)	46
Other	(21)	(5)
Other operating activities		
Defined benefit plans - funding	(345)	(396)
Settlement of interest rate swaps	—	(88)
Other assets	18	(42)
Other liabilities	(75)	69
Net cash provided by operating activities - continuing operations	2,230	1,688
Net cash provided by operating activities - discontinued operations	—	343
Net cash provided by operating activities	2,230	2,031
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,073)	(2,560)
Expenditures for intangible assets	(23)	(32)
Proceeds from the sale of other investments	2	136
Other investing activities	28	(7)
Net cash provided by (used in) investing activities - continuing operations	(2,066)	(2,463)
Net cash provided by (used in) investing activities - discontinued operations	—	(149)
Net cash provided by (used in) investing activities	(2,066)	(2,612)
Cash Flows from Financing Activities		
Issuance of long-term debt	1,241	1,137
Retirement of long-term debt	(905)	—
Settlement of cross-currency swaps	46	—
Issuance of common stock	133	145
Payment of common stock dividends	(772)	(750)
Net increase (decrease) in short-term debt	(268)	(271)
Other financing activities	(33)	(30)
Net cash provided by (used in) financing activities - continuing operations	(558)	231
Net cash provided by (used in) financing activities - discontinued operations	—	(546)
Net cash distributions to parent from discontinued operations	—	132
Net cash provided by (used in) financing activities	(558)	(183)
Effect of Exchange Rates on Cash and Cash Equivalents	(26)	(6)

Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	—	352
Net Increase (Decrease) in Cash and Cash Equivalents	(420)	(418)
Cash and Cash Equivalents at Beginning of Period	836	1,399
Cash and Cash Equivalents at End of Period	\$ 416	\$ 981

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

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 416	\$ 836
Accounts receivable (less reserve: 2016, \$48; 2015, \$41)		
Customer	687	673
Other	45	59
Unbilled revenues	393	453
Fuel, materials and supplies	346	357
Prepayments	97	66
Price risk management assets	78	139
Other current assets	37	63
Total Current Assets	2,099	2,646
Property, Plant and Equipment		
Regulated utility plant	34,427	34,399
Less: accumulated depreciation - regulated utility plant	5,938	5,683
Regulated utility plant, net	28,489	28,716
Non-regulated property, plant and equipment	451	516
Less: accumulated depreciation - non-regulated property, plant and equipment	155	165
Non-regulated property, plant and equipment, net	296	351
Construction work in progress	1,184	1,315
Property, Plant and Equipment, net	29,969	30,382
Other Noncurrent Assets		
Regulatory assets	1,765	1,733
Goodwill	3,175	3,550
Other intangibles	693	679
Price risk management assets	185	156
Other noncurrent assets	152	155
Total Other Noncurrent Assets	5,970	6,273
Total Assets	\$ 38,038	\$ 39,301

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries

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

	September 30, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 636	\$ 916
Long-term debt due within one year	443	485
Accounts payable	741	812
Taxes	117	85
Interest	315	303
Dividends	259	255
Customer deposits	302	326
Regulatory liabilities	120	145
Other current liabilities	479	549
Total Current Liabilities	<u>3,412</u>	<u>3,876</u>
Long-term Debt	18,069	18,563
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,810	3,440
Investment tax credits	133	128
Accrued pension obligations	878	1,405
Asset retirement obligations	413	536
Regulatory liabilities	911	945
Other deferred credits and noncurrent liabilities	437	489
Total Deferred Credits and Other Noncurrent Liabilities	<u>6,582</u>	<u>6,943</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	9,824	9,687
Earnings reinvested	3,624	2,953
Accumulated other comprehensive loss	(3,480)	(2,728)
Total Equity	<u>9,975</u>	<u>9,919</u>
Total Liabilities and Equity	\$ <u>38,038</u>	\$ <u>39,301</u>

(a) 1,560,000 shares authorized; 679,268 shares issued and outstanding at September 30, 2016; 780,000 shares authorized; 673,857 shares issued and outstanding at December 31, 2015.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	5,411		168			168
Stock-based compensation			(31)			(31)
Net income				1,437		1,437
Dividends and dividend equivalents				(773)		(773)
Other comprehensive income (loss)					(752)	(752)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 2)				7		7
September 30, 2016	679,268	\$ 7	\$ 9,824	\$ 3,624	\$ (3,480)	\$ 9,975
December 31, 2014	665,849	\$ 7	\$ 9,433	\$ 6,462	\$ (2,274)	\$ 13,628
Common stock issued	5,943		183			183
Stock-based compensation			14			14
Net income				283		283
Dividends and dividend equivalents				(754)		(754)
Distribution of PPL Energy Supply (Note 8)				(3,200)	(24)	(3,224)
Other comprehensive income (loss)					92	92
September 30, 2015	671,792	\$ 7	\$ 9,630	\$ 2,791	\$ (2,206)	\$ 10,222

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues	\$ 539	\$ 519	\$ 1,619	\$ 1,625
Operating Expenses				
Operation				
Energy purchases	129	154	414	519
Energy purchases from affiliate	—	—	—	14
Other operation and maintenance	144	162	431	435
Depreciation	64	55	185	158
Taxes, other than income	26	27	79	87
Total Operating Expenses	363	398	1,109	1,213
Operating Income	176	121	510	412
Other Income (Expense) - net	4	1	12	5
Interest Expense	32	32	97	96
Income Before Income Taxes	148	90	425	321
Income Taxes	58	35	162	130
Net Income (a)	\$ 90	\$ 55	\$ 263	\$ 191

(a) Net income equals comprehensive income.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 263	\$ 191
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	185	158
Amortization	19	19
Defined benefit plans - expense	9	13
Deferred income taxes and investment tax credits	151	127
Other	(14)	(9)
Change in current assets and current liabilities		
Accounts receivable	(6)	18
Accounts payable	(1)	(140)
Unbilled revenue	10	28
Prepayments	29	(17)
Regulatory assets and liabilities	(41)	46
Taxes payable	(6)	(50)
Other	(13)	13
Other operating activities		
Defined benefit plans - funding	—	(33)
Other assets	15	(6)
Other liabilities	(5)	15
Net cash provided by operating activities	<u>595</u>	<u>373</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(739)	(758)
Expenditures for intangible assets	—	(9)
Other investing activities	(1)	3
Net cash provided by (used in) investing activities	<u>(740)</u>	<u>(764)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	224	—
Retirement of long-term debt	(224)	—
Contributions from parent	200	275
Payment of common stock dividends to parent	(193)	(140)
Net increase (decrease) in short-term debt	130	68
Other financing activities	(3)	—
Net cash provided by (used in) financing activities	<u>134</u>	<u>203</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11)	(188)
Cash and Cash Equivalents at Beginning of Period	47	214
Cash and Cash Equivalents at End of Period	<u>\$ 36</u>	<u>\$ 26</u>

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 36	\$ 47
Accounts receivable (less reserve: 2016, \$22; 2015, \$16)		
Customer	290	286
Other	12	10
Unbilled revenues	81	91
Materials and supplies	28	34
Prepayments	37	66
Other current assets	15	21
Total Current Assets	499	555
Property, Plant and Equipment		
Regulated utility plant	9,360	8,734
Less: accumulated depreciation - regulated utility plant	2,698	2,573
Regulated utility plant, net	6,662	6,161
Construction work in progress	657	530
Property, Plant and Equipment, net	7,319	6,691
Other Noncurrent Assets		
Regulatory assets	991	1,006
Intangibles	247	244
Other noncurrent assets	14	15
Total Other Noncurrent Assets	1,252	1,265
Total Assets	\$ 9,070	\$ 8,511

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

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 130	\$ —
Long-term debt due within one year	224	—
Accounts payable	357	288
Accounts payable to affiliates	33	35
Taxes	18	24
Interest	31	37
Regulatory liabilities	94	113
Customer deposits	22	31
Other current liabilities	69	77
Total Current Liabilities	978	605
Long-term Debt	2,607	2,828
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,823	1,663
Accrued pension obligations	185	183
Regulatory liabilities	—	22
Other deferred credits and noncurrent liabilities	88	91
Total Deferred Credits and Other Noncurrent Liabilities	2,096	1,959
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,134	1,934
Earnings reinvested	891	821
Total Equity	3,389	3,119
Total Liabilities and Equity	\$ 9,070	\$ 8,511

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				263	263
Capital contributions from PPL			200		200
Dividends declared on common stock				(193)	(193)
September 30, 2016	66,368	\$ 364	\$ 2,134	\$ 891	\$ 3,389
December 31, 2014	66,368	\$ 364	\$ 1,603	\$ 750	\$ 2,717
Net income				191	191
Capital contributions from PPL (b)			322		322
Dividends declared on common stock				(140)	(140)
September 30, 2015	66,368	\$ 364	\$ 1,925	\$ 801	\$ 3,090

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

(b) Includes non-cash contributions of \$47 million.

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

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

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues	\$ 835	\$ 801	\$ 2,382	\$ 2,414
Operating Expenses				
Operation				
Fuel	227	228	607	695
Energy purchases	24	23	118	143
Other operation and maintenance	197	202	603	625
Depreciation	102	97	301	286
Taxes, other than income	16	14	46	43
Total Operating Expenses	566	564	1,675	1,792
Operating Income	269	237	707	622
Other Income (Expense) - net	(3)	(1)	(9)	(3)
Interest Expense	50	43	147	127
Interest Expense with Affiliate	4	—	12	1
Income Before Income Taxes	212	193	539	491
Income Taxes	79	73	202	194
Net Income	\$ 133	\$ 120	\$ 337	\$ 297

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

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

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 133	\$ 120	\$ 337	\$ 297
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, (\$1), \$5	—	—	1	(8)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$1	—	—	(1)	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), \$0, (\$1), \$0	—	—	1	1
Net actuarial loss, net of tax of \$0, \$0, (\$1), (\$1)	1	1	3	2
Total other comprehensive income (loss)	1	1	4	(6)
Comprehensive income (loss)	\$ 134	\$ 121	\$ 341	\$ 291

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

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

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 337	\$ 297
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	301	286
Amortization	21	18
Defined benefit plans - expense	20	29
Deferred income taxes and investment tax credits	212	199
Other	—	29
Change in current assets and current liabilities		
Accounts receivable	(43)	(1)
Accounts payable	7	(34)
Accounts payable to affiliates	4	(7)
Unbilled revenues	6	19
Fuel, materials and supplies	7	43
Income tax receivable	—	132
Accrued interest	42	37
Other	(4)	(2)
Other operating activities		
Defined benefit plans - funding	(82)	(66)
Expenditures for asset retirement obligations	(15)	(5)
Settlement of interest rate swaps	—	(88)
Other assets	1	(4)
Other liabilities	2	13
Net cash provided by operating activities	<u>816</u>	<u>895</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(600)	(928)
Other investing activities	1	7
Net cash provided by (used in) investing activities	<u>(599)</u>	<u>(921)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	84	21
Issuance of long-term debt	221	1,050
Retirement of long-term debt	(221)	—
Net increase (decrease) in short-term debt	(130)	(500)
Debt issuance and credit facility costs	(3)	(9)
Distributions to member	(224)	(157)
Contributions from member	37	55
Net cash provided by (used in) financing activities	<u>(236)</u>	<u>460</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19)	434
Cash and Cash Equivalents at Beginning of Period	<u>30</u>	<u>21</u>
Cash and Cash Equivalents at End of Period	<u>\$ 11</u>	<u>\$ 455</u>

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

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

(Unaudited)
(Millions of Dollars)

	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 11	\$ 30
Accounts receivable (less reserve: 2016, \$24; 2015, \$23)		
Customer	250	209
Other	13	17
Unbilled revenues	141	147
Fuel, materials and supplies	292	298
Prepayments	31	23
Regulatory assets	18	35
Other current assets	1	6
Total Current Assets	757	765
Property, Plant and Equipment		
Regulated utility plant	12,510	11,906
Less: accumulated depreciation - regulated utility plant	1,382	1,163
Regulated utility plant, net	11,128	10,743
Construction work in progress	349	660
Property, Plant and Equipment, net	11,477	11,403
Other Noncurrent Assets		
Regulatory assets	774	727
Goodwill	996	996
Other intangibles	103	123
Other noncurrent assets	80	76
Total Other Noncurrent Assets	1,953	1,922
Total Assets	\$ 14,187	\$ 14,090

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

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

(Unaudited)
(Millions of Dollars)

	September 30, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 135	\$ 265
Long-term debt due within one year	219	25
Notes payable with affiliate	138	54
Accounts payable	216	266
Accounts payable to affiliates	9	5
Customer deposits	55	52
Taxes	49	46
Price risk management liabilities	6	5
Regulatory liabilities	26	32
Interest	74	32
Asset retirement obligations	54	50
Other current liabilities	111	135
Total Current Liabilities	1,092	967
Long-term Debt		
Long-term debt	4,470	4,663
Long-term debt to affiliate	400	400
Total Long-term Debt	4,870	5,063
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,673	1,463
Investment tax credits	132	128
Accrued pension obligations	242	296
Asset retirement obligations	368	485
Regulatory liabilities	911	923
Price risk management liabilities	48	42
Other deferred credits and noncurrent liabilities	180	206
Total Deferred Credits and Other Noncurrent Liabilities	3,554	3,543
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,671	4,517
Total Liabilities and Equity	\$ 14,187	\$ 14,090

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

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

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2015	\$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224)
Other comprehensive income (loss)	4
September 30, 2016	\$ 4,671
December 31, 2014	\$ 4,248
Net income	297
Contributions from member	55
Distributions to member	(157)
Other comprehensive income (loss)	(6)
September 30, 2015	\$ 4,437

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

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CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues				
Retail and wholesale	\$ 366	\$ 349	\$ 1,058	\$ 1,089
Electric revenue from affiliate	2	2	19	32
Total Operating Revenues	368	351	1,077	1,121
Operating Expenses				
Operation				
Fuel	86	82	233	267
Energy purchases	19	18	104	129
Energy purchases from affiliate	5	9	10	17
Other operation and maintenance	85	87	264	286
Depreciation	43	40	126	122
Taxes, other than income	9	7	24	21
Total Operating Expenses	247	243	761	842
Operating Income	121	108	316	279
Other Income (Expense) - net	(1)	(1)	(6)	(3)
Interest Expense	18	13	53	39
Income Before Income Taxes	102	94	257	237
Income Taxes	39	36	98	91
Net Income (a)	\$ 63	\$ 58	\$ 159	\$ 146

(a) Net income equals comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 159	\$ 146
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	126	122
Amortization	10	9
Defined benefit plans - expense	6	10
Deferred income taxes and investment tax credits	117	93
Other	—	25
Change in current assets and current liabilities		
Accounts receivable	(19)	10
Accounts receivable from affiliates	(11)	4
Accounts payable	24	(14)
Accounts payable to affiliates	(6)	(1)
Unbilled revenues	10	13
Fuel, materials and supplies	11	21
Income tax receivable	2	74
Accrued interest	13	9
Other	1	8
Other operating activities		
Defined benefit plans - funding	(45)	(25)
Expenditures for asset retirement obligations	(11)	(4)
Settlement of interest rate swaps	—	(44)
Other assets	(3)	10
Other liabilities	(1)	3
Net cash provided by operating activities	<u>383</u>	<u>469</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(343)	(519)
Net cash provided by (used in) investing activities	<u>(343)</u>	<u>(519)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	125	550
Retirement of long-term debt	(125)	—
Net increase (decrease) in short-term debt	(14)	(264)
Debt issuance and credit facility costs	(1)	(5)
Payment of common stock dividends to parent	(87)	(81)
Contributions from parent	47	20
Net cash provided by (used in) financing activities	<u>(55)</u>	<u>220</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(15)	170
Cash and Cash Equivalents at Beginning of Period	<u>19</u>	<u>10</u>
Cash and Cash Equivalents at End of Period	<u>\$ 4</u>	<u>\$ 180</u>

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

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 4	\$ 19
Accounts receivable (less reserve: 2016, \$1; 2015, \$1)		
Customer	109	92
Other	11	11
Accounts receivable from affiliates	23	12
Unbilled revenues	57	67
Fuel, materials and supplies	140	151
Prepayments	14	5
Regulatory assets	6	16
Other current assets	—	2
Total Current Assets	364	375
Property, Plant and Equipment		
Regulated utility plant	5,234	4,804
Less: accumulated depreciation - regulated utility plant	468	404
Regulated utility plant, net	4,766	4,400
Construction work in progress	155	390
Property, Plant and Equipment, net	4,921	4,790
Other Noncurrent Assets		
Regulatory assets	437	424
Goodwill	389	389
Other intangibles	63	73
Other noncurrent assets	21	17
Total Other Noncurrent Assets	910	903
Total Assets	\$ 6,195	\$ 6,068

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

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 128	\$ 142
Long-term debt due within one year	219	25
Accounts payable	133	157
Accounts payable to affiliates	19	25
Customer deposits	26	26
Taxes	23	20
Price risk management liabilities	6	5
Regulatory liabilities	7	13
Interest	24	11
Asset retirement obligations	39	25
Other current liabilities	36	39
Total Current Liabilities	660	488
Long-term Debt	1,423	1,617
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	944	829
Investment tax credits	37	35
Accrued pension obligations	18	56
Asset retirement obligations	107	149
Regulatory liabilities	424	431
Price risk management liabilities	48	42
Other deferred credits and noncurrent liabilities	85	91
Total Deferred Credits and Other Noncurrent Liabilities	1,663	1,633
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,658	1,611
Earnings reinvested	367	295
Total Equity	2,449	2,330
Total Liabilities and Equity	\$ 6,195	\$ 6,068

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				159	159
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(87)	(87)
September 30, 2016	21,294	\$ 424	\$ 1,658	\$ 367	\$ 2,449
December 31, 2014	21,294	\$ 424	\$ 1,521	\$ 229	\$ 2,174
Net income				146	146
Capital contributions from LKE			20		20
Cash dividends declared on common stock				(81)	(81)
September 30, 2015	21,294	\$ 424	\$ 1,541	\$ 294	\$ 2,259

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

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

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CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues				
Retail and wholesale	\$ 469	\$ 452	\$ 1,324	\$ 1,325
Electric revenue from affiliate	5	9	10	17
Total Operating Revenues	474	461	1,334	1,342
Operating Expenses				
Operation				
Fuel	141	146	374	428
Energy purchases	5	5	14	14
Energy purchases from affiliate	2	2	19	32
Other operation and maintenance	107	108	320	321
Depreciation	59	57	175	164
Taxes, other than income	7	7	22	22
Total Operating Expenses	321	325	924	981
Operating Income	153	136	410	361
Other Income (Expense) - net	(3)	—	(4)	1
Interest Expense	24	20	71	58
Income Before Income Taxes	126	116	335	304
Income Taxes	48	44	128	115
Net Income (a)	\$ 78	\$ 72	\$ 207	\$ 189

(a) Net income approximates comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 207	\$ 189
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	175	164
Amortization	10	8
Defined benefit plans - expense	4	9
Deferred income taxes and investment tax credits	122	132
Other	(1)	4
Change in current assets and current liabilities		
Accounts receivable	(24)	(11)
Accounts payable	(11)	(18)
Accounts payable to affiliates	2	(7)
Unbilled revenues	(4)	6
Fuel, materials and supplies	(4)	22
Income tax receivable	—	60
Accrued interest	22	19
Other	2	6
Other operating activities		
Defined benefit plans - funding	(19)	(20)
Expenditures for asset retirement obligations	(4)	(1)
Settlement of interest rate swaps	—	(44)
Other assets	(4)	(9)
Other liabilities	(4)	1
Net cash provided by operating activities	<u>469</u>	<u>510</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(255)	(407)
Other investing activities	1	7
Net cash provided by (used in) investing activities	<u>(254)</u>	<u>(400)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	96	500
Retirement of long-term debt	(96)	—
Net increase (decrease) in short-term debt	(41)	(236)
Debt issuance and credit facility costs	(1)	(4)
Payment of common stock dividends to parent	(197)	(106)
Contributions from parent	20	—
Net cash provided by (used in) financing activities	<u>(219)</u>	<u>154</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4)	264
Cash and Cash Equivalents at Beginning of Period	<u>11</u>	<u>11</u>
Cash and Cash Equivalents at End of Period	<u>\$ 7</u>	<u>\$ 275</u>

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

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 7	\$ 11
Accounts receivable (less reserve: 2016, \$2; 2015, \$2)		
Customer	141	117
Other	3	9
Accounts receivable from affiliates	1	1
Unbilled revenues	84	80
Fuel, materials and supplies	152	147
Prepayments	16	8
Regulatory assets	12	19
Other current assets	1	4
Total Current Assets	417	396
Property, Plant and Equipment		
Regulated utility plant	7,270	7,099
Less: accumulated depreciation - regulated utility plant	913	759
Regulated utility plant, net	6,357	6,340
Construction work in progress	192	267
Property, Plant and Equipment, net	6,549	6,607
Other Noncurrent Assets		
Regulatory assets	337	303
Goodwill	607	607
Other intangibles	40	50
Other noncurrent assets	56	48
Total Other Noncurrent Assets	1,040	1,008
Total Assets	\$ 8,006	\$ 8,011

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company

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

	September 30, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 7	\$ 48
Accounts payable	67	88
Accounts payable to affiliates	42	39
Customer deposits	29	26
Taxes	23	20
Regulatory liabilities	19	19
Interest	38	16
Asset retirement obligations	15	25
Other current liabilities	35	44
Total Current Liabilities	275	325
Long-term Debt		
	2,327	2,326
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,166	1,046
Investment tax credits	95	93
Accrued pension obligations	33	46
Asset retirement obligations	261	336
Regulatory liabilities	487	492
Other deferred credits and noncurrent liabilities	46	60
Total Deferred Credits and Other Noncurrent Liabilities	2,088	2,073
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,596
Accumulated other comprehensive loss	(1)	—
Earnings reinvested	393	383
Total Equity	3,316	3,287
Total Liabilities and Equity	\$ 8,006	\$ 8,011

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Capital contributions from LKE			20			20
Net income				207		207
Cash dividends declared on common stock				(197)		(197)
Other comprehensive income (loss)					(1)	(1)
September 30, 2016	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 393</u>	<u>\$ (1)</u>	<u>\$ 3,316</u>
December 31, 2014	37,818	\$ 308	\$ 2,596	\$ 302	\$ —	\$ 3,206
Net income				189		189
Cash dividends declared on common stock				(106)		(106)
Other comprehensive income (loss)					(1)	(1)
September 30, 2015	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,596</u>	<u>\$ 385</u>	<u>\$ (1)</u>	<u>\$ 3,288</u>

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

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

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2015 is derived from that Registrant's 2015 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2015 Form 10-K. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2016 financial statements.

(PPL)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statement of Cash Flows for the nine months ended September 30, 2015 separately reports the cash flows of the discontinued operations. See Note 8 for additional information.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 to each indicated Registrant's 2015 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and nine months ended September 30, 2016, PPL Electric purchased \$365 million and \$1.0 billion of accounts receivable from unaffiliated third parties. During the three and nine months ended September 30, 2015, PPL Electric purchased \$361 million and \$968 million of accounts receivable from unaffiliated third parties. PPL Electric's purchases from PPL EnergyPlus for the nine months ended September 30, 2015 were \$146 million. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

Discount Rate Change for U.K. Pension Plans *(PPL)*

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. For the three and nine months ended September 30, 2016, this

change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statements of Income of \$10 million (\$8 million after-tax or \$0.01 per share) and \$31 million (\$25 million after-tax or \$0.04 per share).

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Certain financial information provided for future periods in PPL's 2015 Form 10-K is impacted by the decrease in the GBP to U.S. dollar exchange rate that occurred subsequent to the U.K.'s vote on June 23, 2016 to withdraw from the European Union.

New Accounting Guidance Adopted (All Registrants)

Accounting for Stock-Based Compensation

Effective January 1, 2016, the Registrants adopted accounting guidance to simplify the accounting for share-based payment transactions. The guidance requires excess tax benefits and tax deficiencies to be recorded as income tax benefit or expense on the statement of income, eliminates the requirement that excess tax benefits be realized before companies can recognize them and changes the threshold for statutory income tax withholding requirements to qualify for equity classification to the maximum statutory tax rates in the applicable jurisdictions. This guidance also changes the classification of excess tax benefits to an operating activity and employee taxes paid when shares are withheld to satisfy the employer's statutory income tax withholding obligation to a financing activity on the statement of cash flows and allows entities to make a policy election to either estimate forfeitures or recognize them when they occur. The adoption of this guidance had the following impacts:

- Using the required prospective method of transition, for the three and nine months ended September 30, 2016, PPL recorded tax benefits of \$1 million and \$12 million (\$0.02 per share), and for the nine months ended September 30, 2016, PPL Electric recorded tax benefits of \$7 million, related to excess tax benefits for awards that were exercised and vested for the periods ending September 30, 2016. These amounts were recorded to Income taxes on the Statements of Income and Deferred income taxes on the Balance Sheets. The impact on LKE was not significant.
- PPL elected to use the prospective method of transition for classifying excess tax benefits as an Operating activity on the Statement of Cash Flows. The amounts classified as Financing activities in the prior periods were not significant.
- Upon adoption, using the required modified retrospective method of transition, PPL recorded a cumulative effect adjustment of \$7 million to increase Earnings reinvested and decrease Deferred income taxes on the Balance Sheet related to prior period unrecognized excess tax benefits.
- PPL has historically presented employee taxes paid for net settled awards as a Financing activity on the Statement of Cash Flows. Therefore, there is no transition impact for this requirement.
- PPL has elected to recognize forfeitures when they occur. Due to past experience of insignificant forfeitures, there is no transition impact of this policy election.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2015 Form 10-K for a discussion of reportable segments and related information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are:

	Three Months		Nine Months	
	2016	2015	2016	2015
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 515	\$ 552	\$ 1,673	\$ 1,836
Kentucky Regulated	835	801	2,382	2,414
Pennsylvania Regulated	539	519	1,619	1,625
Corporate and Other	—	6	11	14
Total	\$ 1,889	\$ 1,878	\$ 5,685	\$ 5,889
Net Income				
U.K. Regulated (a)	\$ 281	\$ 249	\$ 915	\$ 814
Kentucky Regulated	126	111	314	267
Pennsylvania Regulated	91	55	263	191
Corporate and Other (b)	(25)	(19)	(55)	(74)
Discontinued Operations (c)	—	(3)	—	(915)
Total	\$ 473	\$ 393	\$ 1,437	\$ 283

	September 30, 2016	December 31, 2015
Balance Sheet Data		
Assets		
U.K. Regulated (d)	\$ 15,014	\$ 16,669
Kentucky Regulated	13,853	13,756
Pennsylvania Regulated	9,070	8,511
Corporate and Other (e)	101	365
Total assets	\$ 38,038	\$ 39,301

- (a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 14 for additional information.
- (b) The nine months ended September 30, 2015 includes transition costs to prepare the Talen Energy organization for the June 1, 2015 spinoff and reconfigure the remaining PPL Services functions. See Note 8 for additional information.
- (c) See Note 8 for additional information.
- (d) Includes \$11.1 billion and \$12.2 billion of net PP&E as of September 30, 2016 and December 31, 2015. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
- (e) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

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

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

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	Three Months		Nine Months	
	2016	2015	2016	2015
Income (Numerator)				
Income from continuing operations after income taxes	\$ 473	\$ 396	\$ 1,437	\$ 1,198
Less amounts allocated to participating securities	1	2	4	5
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	\$ 472	\$ 394	\$ 1,433	\$ 1,193
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	\$ —	\$ (3)	\$ —	\$ (915)
Net income	\$ 473	\$ 393	\$ 1,437	\$ 283
Less amounts allocated to participating securities	1	2	4	1
Net income available to PPL common shareowners - Basic and Diluted	\$ 472	\$ 391	\$ 1,433	\$ 282
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	678,114	670,763	676,905	668,731
Add incremental non-participating securities:				
Share-based payment awards	2,234	2,939	3,064	2,523
Weighted-average shares - Diluted EPS	680,348	673,702	679,969	671,254
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.70	\$ 0.59	\$ 2.12	\$ 1.78
Income (loss) from discontinued operations (net of income taxes)	—	(0.01)	—	(1.36)
Net Income	\$ 0.70	\$ 0.58	\$ 2.12	\$ 0.42
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.69	\$ 0.59	\$ 2.11	\$ 1.78
Income (loss) from discontinued operations (net of income taxes)	—	(0.01)	—	(1.36)
Net Income	\$ 0.69	\$ 0.58	\$ 2.11	\$ 0.42

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

	Three Months		Nine Months	
	2016	2015	2016	2015
Stock-based compensation plans (a)	248	1,368	3,168	3,805
DRIP	761	475	1,533	1,318

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

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

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

	Three Months		Nine Months	
	2016	2015	2016	2015
Stock options	696	1,484	696	1,218
Performance units	316	—	210	49

5. Income Taxes

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

(PPL)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 214	\$ 189	\$ 681	\$ 571
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	13	15	37	44
Valuation allowance adjustments	4	—	13	8
Impact of lower U.K. income tax rates	(37)	(40)	(136)	(138)
Federal and state tax reserve adjustments (a)	—	(9)	—	(21)
Enactment of the U.K. Finance Act 2016 (b)	(42)	—	(42)	—
Depreciation not normalized	—	—	(6)	(4)
Interest benefit on U.K. financing entities	(4)	(4)	(13)	(15)
Stock-based compensation (c)	(1)	—	(12)	—
Other	(8)	(7)	(12)	(13)
Total increase (decrease)	(75)	(45)	(171)	(139)
Total income taxes	\$ 139	\$ 144	\$ 510	\$ 432

(a) During the three and nine months ended September 30, 2015, PPL recorded a \$9 million tax benefit related to a planned amendment of a prior period tax return.

During the nine months ended September 30, 2015, PPL recorded a \$12 million tax benefit to adjust the settled refund amount approved by the Joint Committee on Taxation for the open audit years 1998 - 2011.

- (b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.
- (c) During the three and nine months ended September 30, 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

(PPL Electric)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 52	\$ 32	\$ 149	\$ 112
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	7	27	21
Depreciation not normalized	(2)	(1)	(5)	(3)
Stock-based compensation (a)	—	—	(7)	—
Other	(1)	(3)	(2)	—
Total increase (decrease)	6	3	13	18
Total income taxes	\$ 58	\$ 35	\$ 162	\$ 130

(a) During the nine months ended September 30, 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

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(LKE)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 74	\$ 68	\$ 189	\$ 172
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	7	20	18
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Valuation allowance adjustments (a)	—	—	—	8
Stock-based compensation	(1)	—	(2)	—
Other	(1)	(1)	(3)	(2)
Total increase (decrease)	5	5	13	22
Total income taxes	\$ 79	\$ 73	\$ 202	\$ 194

(a) Represents a valuation allowance against tax credits expiring in 2016 and 2017 that are more likely than not to expire before being utilized.

(LG&E)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 36	\$ 33	\$ 90	\$ 83
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	4	10	9
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	3	3	8	8
Total income taxes	\$ 39	\$ 36	\$ 98	\$ 91

(KU)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 44	\$ 41	\$ 117	\$ 106
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	4	12	11
Other	(1)	(1)	(1)	(2)
Total increase (decrease)	4	3	11	9
Total income taxes	\$ 48	\$ 44	\$ 128	\$ 115

Other (PPL)

In February 2015, PPL and the IRS Appeals Division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. In April 2015, PPL was notified that the Joint Committee on Taxation approved PPL's settlement. For the nine months ended September 30, 2015, PPL recorded a tax benefit of \$24 million. Of this amount, \$12 million was reflected in continuing operations. PPL finalized the settlement of interest in the second quarter of 2016 and recorded an additional \$3 million tax benefit.

6. Utility Rate Regulation

(All Registrants)

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

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	PPL		PPL Electric	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current Regulatory Assets:				
Environmental cost recovery	\$ 4	\$ 24	\$ —	\$ —
Generation formula rate	12	7	—	—
Transmission service charge	8	10	8	10
Other	6	7	4	3
Total current regulatory assets (a)	\$ 30	\$ 48	\$ 12	\$ 13
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 791	\$ 809	\$ 456	\$ 469
Taxes recoverable through future rates	333	326	333	326
Storm costs	71	93	19	30
Unamortized loss on debt	62	68	39	42
Interest rate swaps	143	141	—	—
Accumulated cost of removal of utility plant	143	137	143	137
AROs	208	143	—	—
Other	14	16	1	2
Total noncurrent regulatory assets	\$ 1,765	\$ 1,733	\$ 991	\$ 1,006
Current Regulatory Liabilities:				
Generation supply charge	\$ 22	\$ 41	\$ 22	\$ 41
Demand side management	6	8	—	—
Gas supply clause	—	6	—	—
Universal service rider	10	5	10	5
Transmission formula rate	25	48	25	48
Fuel adjustment clause	14	14	—	—
Act 129 compliance rider	22	—	22	—
Storm damage expense	13	16	13	16
Other	8	7	2	3
Total current regulatory liabilities	\$ 120	\$ 145	\$ 94	\$ 113
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 698	\$ 691	\$ —	\$ —
Coal contracts (b)	3	17	—	—
Power purchase agreement - OVEC (b)	77	83	—	—
Net deferred tax assets	23	23	—	—
Act 129 compliance rider	—	22	—	22
Defined benefit plans	27	24	—	—
Interest rate swaps	80	82	—	—
Other	3	3	—	—
Total noncurrent regulatory liabilities	\$ 911	\$ 945	\$ —	\$ 22

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	LKE		LG&E		KU	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current Regulatory Assets:						
Environmental cost recovery	\$ 4	\$ 24	\$ 4	\$ 13	\$ —	\$ 11
Generation formula rate	12	7	—	—	12	7
Other	2	4	2	3	—	1
Total current regulatory assets	\$ 18	\$ 35	\$ 6	\$ 16	\$ 12	\$ 19
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 335	\$ 340	\$ 211	\$ 215	\$ 124	\$ 125
Storm costs	52	63	29	35	23	28
Unamortized loss on debt	23	26	16	17	7	9
Interest rate swaps	143	141	102	98	41	43
AROs	208	143	77	57	131	86
Plant retirement costs	4	6	—	—	4	6
Other	9	8	2	2	7	6
Total noncurrent regulatory assets	\$ 774	\$ 727	\$ 437	\$ 424	\$ 337	\$ 303
Current Regulatory Liabilities:						
Demand side management	\$ 6	\$ 8	\$ 4	\$ 4	\$ 2	\$ 4
Gas supply clause	—	6	—	6	—	—
Fuel adjustment clause	14	14	2	2	12	12
Other	6	4	1	1	5	3
Total current regulatory liabilities	\$ 26	\$ 32	\$ 7	\$ 13	\$ 19	\$ 19
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 698	\$ 691	\$ 306	\$ 301	\$ 392	\$ 390
Coal contracts (b)	3	17	1	7	2	10
Power purchase agreement - OVEC (b)	77	83	53	57	24	26
Net deferred tax assets	23	23	23	23	—	—
Defined benefit plans	27	24	—	—	27	24
Interest rate swaps	80	82	40	41	40	41
Other	3	3	1	2	2	1
Total noncurrent regulatory liabilities	\$ 911	\$ 923	\$ 424	\$ 431	\$ 487	\$ 492

(a) These amounts are included in "Other current assets" on the Balance Sheets.

(b) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. WPD began refunding its liability for over-recovery of line losses to customers on April 1, 2015, which will continue through March 31, 2019. The liability at September 30, 2016 was \$31 million.

Kentucky Activities

Rate Case Proceedings (PPL, LKE, LG&E and KU)

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On November 1, 2016, LG&E and KU announced that on November 23, 2016, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases to be requested are an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E and would become effective in July 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program. The applications are to be based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return-on-equity of 10.23%. LG&E and KU cannot predict the outcome of these proceedings.

CPCN and ECR Filings (PPL, LKE, LG&E and KU)

On August 8, 2016, the KPSC issued an order approving CPCNs and ECR rate treatment regarding environmental construction projects relating to the EPA's regulations addressing the handling of coal combustion by-products and MATS. The construction projects began in 2016 and are expected to continue through 2023. The KPSC order established a 9.8% authorized return on equity for these projects. Recovery of costs has commenced with bills rendered on and after August 31, 2016.

Gas Franchise (LKE and LG&E)

LG&E's existing gas franchise agreement for the Louisville/Jefferson County service area expired on March 31, 2016. LG&E submitted a proposed bid for a new franchise agreement on June 9, 2016. On August 30, 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee shall revert to zero. On August 30, 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E, and further filed a KPSC complaint against LG&E relating to these issues. On October 19, 2016, the KPSC issued an order rejecting Louisville/Jefferson County's complaint and provided Louisville/Jefferson County 20 days to file an amended complaint. Until the KPSC issues orders in these proceedings, LG&E cannot predict the outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

Pennsylvania Activities (PPL and PPL Electric)

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In January 2016, PPL Electric and the other parties to the case reached a settlement of all major issues and filed that settlement with the Administrative Law Judge. In June 2016, the PUC issued a final order approving PPL Electric's Phase III Plan as modified by the settlement, allowing PPL Electric to recover, through the Act 129 compliance rider, a maximum \$313 million in program cost over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

PPL Electric has received PUC approval of its biannual DSP procurement plans for all prior periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. The parties to the proceeding reached a settlement on all but one issue and a partial settlement agreement and briefs on the open issue were submitted to the Administrative Law Judge (ALJ) in July 2016. In August 2016, the ALJ issued an initial decision, and certain parties filed exceptions and reply exceptions. In October 2016, the PUC issued an order approving the partial settlement agreement and adopting the initial decision with minor modifications.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

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

	Expiration Date	September 30, 2016				December 31, 2015			
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	
PPL									
U.K.									
WPD plc									
Syndicated Credit Facility	Jan 2021	£ 210	£ 153	£ —	£ 57	£ 133	£ —		
WPD (South West)									
Syndicated Credit Facility	July 2021	245	100	—	145	—	—		
WPD (East Midlands)									
Syndicated Credit Facility	July 2021	300	31	—	269	—	—		
WPD (West Midlands)									
Syndicated Credit Facility	July 2021	300	—	—	300	—	—		
Uncommitted Credit Facilities		40	—	4	36	—	4		
Total U.K. Credit Facilities (a)		£ 1,095	£ 284	£ 4	£ 807	£ 133	£ 4		
U.S.									
PPL Capital Funding									
Syndicated Credit Facility	Jan 2021	\$ 700	\$ —	\$ —	\$ 700	\$ —	\$ 151		
Syndicated Credit Facility	Nov 2018	300	—	—	300	—	300		
Bilateral Credit Facility	Mar 2017	150	—	17	133	—	20		
Total PPL Capital Funding Credit Facilities		\$ 1,150	\$ —	\$ 17	\$ 1,133	\$ —	\$ 471		
PPL Electric									
Syndicated Credit Facility	Jan 2021	\$ 400	\$ —	\$ 131	\$ 269	\$ —	\$ 1		
LKE									
Syndicated Credit Facility (b)	Oct 2018	\$ 75	\$ —	\$ —	\$ 75	\$ 75	\$ —		
LG&E									
Syndicated Credit Facility	Dec 2020	\$ 500	\$ —	\$ 128	\$ 372	\$ —	\$ 142		
KU									
Syndicated Credit Facility	Dec 2020	\$ 400	\$ —	\$ 7	\$ 393	\$ —	\$ 48		
Letter of Credit Facility	Oct 2017	198	—	198	—	—	198		
Total KU Credit Facilities		\$ 598	\$ —	\$ 205	\$ 393	\$ —	\$ 246		

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- (a) WPD plc's amounts borrowed at September 30, 2016 and December 31, 2015 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 1.35% and 1.83%. The unused capacity reflects the amount borrowed in GBP of £153 million as of the date borrowed. WPD (South West) amount borrowed at September 30, 2016 was a GBP-denominated borrowing which equated to \$131 million and bore interest at 0.68%. WPD (East Midlands) amount borrowed at September 30, 2016 was a GBP-denominated borrowing which equated to \$40 million and bore interest at 0.66%. At September 30, 2016, the unused capacity under the U.K. credit facilities was approximately \$1.1 billion.
- (b) LKE's interest rate on outstanding borrowings at December 31, 2015 was 1.68%.

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

	September 30, 2016				December 31, 2015	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding		\$ 1,000	\$ —	\$ 1,000	0.78%	\$ 451
PPL Electric	0.74%	400	130	270		—
LG&E	0.73%	350	128	222	0.71%	142
KU	0.66%	350	7	343	0.72%	48
Total		\$ 2,100	\$ 265	\$ 1,835		\$ 641

(LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In May 2016, PPL Capital Funding issued \$650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of \$645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new ten-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire \$460 million principal amount of its 3.90% Senior Notes upon maturity.

In October 2016, WPD (East Midlands) issued an additional £40 million of its 2.671% Index-linked Senior Notes due 2043. WPD (East Midlands) received proceeds of £83 million, which equated to \$101 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The proceeds will be used for general corporate purposes.

(PPL and PPL Electric)

In March 2016, the LCIDA issued \$116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and \$108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at PPL Electric's option. The proceeds of the bonds were used to redeem \$116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and \$108 million of 4.75% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued \$224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

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(PPL, LKE and LG&E)

In September 2016, the County of Trimble, Kentucky issued \$125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) due 2044 on behalf of LG&E. The bonds were issued with a floating interest rate that initially will reset weekly. The method of determining the interest rate on the bonds may be converted from time to time at LG&E's option. The proceeds of the bonds were used to redeem \$83 million of Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2030 and \$42 million of Pollution Control Revenue Refunding Bonds, 2002 Series A (Louisville Gas and Electric Company Project) due 2032 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

(PPL, LKE and KU)

In August 2016, the County of Carroll, Kentucky issued \$96 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) due 2042 on behalf of KU. The bonds were issued bearing interest at an initial term rate of 1.05% through their mandatory purchase date of September 1, 2019. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at KU's option. The proceeds of the bonds were used to redeem \$96 million of Pollution Control Revenue Refunding Bonds, 2002 Series C (Kentucky Utilities Company Project) due 2032 previously issued by the County of Carroll, Kentucky on behalf of KU.

(PPL)

ATM Program

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

	Three Months		Nine Months	
	2016	2015	2016	2015
Number of shares (in thousands)	710	436	710	858
Average share price	\$ 35.23	\$ 32.95	\$ 35.23	\$ 33.33
Net Proceeds	\$ 25	\$ 14	\$ 25	\$ 28

Distributions

In August 2016, PPL declared a quarterly common stock dividend, payable October 3, 2016, of 38 cents per share (equivalent to \$1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 in the Registrants' 2015 Form 10-K for additional information.

(PPL)

Discontinued Operations

Spinoff of PPL Energy Supply

In June 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy.

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Following completion of the spinoff, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply). See Note 8 in PPL's 2015 Form 10-K for additional information.

Loss on Spinoff

In June 2015, in conjunction with the accounting for the spinoff, PPL evaluated whether the fair value of the Supply segment's net assets was less than the carrying value as of the June 1, 2015 spinoff date.

PPL considered several valuation methodologies to derive a fair value estimate of its Supply segment at the spinoff date. These methodologies included considering the closing "when-issued" Talen Energy market value on June 1, 2015 (the spinoff date), adjusted for the proportional share of the equity value attributable to the Supply segment, as well as, the valuation methods consistently used in PPL's goodwill impairment assessments - an income approach using a discounted cash flow analysis of the Supply segment and an alternative market approach considering market multiples of comparable companies.

Although the Talen Energy market value approach utilized the most observable inputs of the three approaches, PPL considered certain limitations of the "when-issued" trading market for the spinoff transaction including the short trading duration, lack of liquidity in the market and anticipated initial Talen stock ownership base selling pressure, among other factors, and concluded that these factors limited this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

Approach	Weighting	Weighted Fair Value (in billions)
Talen Energy Market Value	50%	\$ 1.4
Income/Discounted Cash Flow	30%	1.1
Alternative Market (Comparable Company)	20%	0.7
Estimated Fair Value		\$ 3.2

A key assumption included in the fair value estimate is the application of a control premium of 25% in the two market approaches. PPL concluded it was appropriate to apply a control premium in these approaches as the goodwill impairment testing guidance was followed in determining the estimated fair value of the Supply segment which had historically been a reporting unit for PPL. This guidance provides that the market price of an individual security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit. This guidance also indicates that substantial value may arise to a controlling shareholder from the ability to take advantage of synergies and other benefits that arise from control over another entity, and that the market price of a company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

In determining the control premium, PPL reviewed premiums received during the prior five years in market sales transactions obtained from observable independent power producer and hybrid utility transactions greater than \$1 billion. Premiums for these transactions ranged from 5% to 42% with a median of approximately 25%. Given these metrics, PPL concluded a control premium of 25% to be reasonable for both of the market valuation approaches used.

Assumptions used in the discounted cash flow analysis included forward energy prices, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the Energy Supply portion of the Talen Energy business planning process at that time and a market participant discount rate.

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Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (classified as Level 3) was below its carrying value of \$4.1 billion and recorded a loss on the spinoff of \$879 million in the second quarter of 2015, which is reflected in discontinued operations and is nondeductible for tax purposes. This amount served to reduce the basis of the net assets accounted for as a dividend at the June 1, 2015 spinoff date.

Costs of Spinoff

Employee-related costs incurred in the nine months ended September 30, 2015 primarily included accelerated stock-based compensation and pro-rated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized \$24 million of these costs at the spinoff closing date, which are reflected in discontinued operations.

PPL also recorded \$44 million of third-party costs related to this transaction during the nine months ended September 30, 2015. Of these costs, \$31 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional \$13 million of consulting and other costs were incurred to prepare the new Talen Energy organization for the spinoff and reconfigure the remaining PPL service functions. These costs are primarily recorded in "Other operation and maintenance" on the Statement of Income.

At the close of the transaction, \$72 million (\$42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into earnings and are reflected in discontinued operations for the nine months ended September 30, 2015.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years after the spinoff. Pursuant to the TSA, PPL is providing Talen Energy certain information technology, financial and accounting, human resource and other specified services. For the three and nine months ended September 30, 2016, the amounts PPL billed Talen Energy for these services were \$9 million and \$29 million. For the three and nine months ended September 30, 2015, the amounts PPL billed Talen Energy for these services were \$11 million and \$14 million. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff. PPL Electric's supply contracts with Talen Energy Marketing extend through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

For the three and nine months ended September 30, 2016, PPL Electric's energy purchases from Talen Energy Marketing were \$15 million and \$98 million. For the three and nine months ended September 30, 2015, PPL Electric's energy purchases from Talen Energy Marketing were not significant. These energy purchases are no longer considered affiliate transactions.

Summarized Results of Discontinued Operations (PPL)

The operations of the Supply segment prior to the spinoff on June 1, 2015 are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statement of Income for the periods ended September 30, 2015:

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	Three Months	Nine Months
Operating revenues	\$ —	\$ 1,427
Operating expenses	—	1,328
Other Income (Expense) - net	—	(22)
Interest expense (a)	—	150
Income (loss) before income taxes	—	(73)
Income tax expense (benefit)	3	(37)
Loss on spinoff	—	(879)
Income (Loss) from Discontinued Operations (net of income taxes)	\$ (3)	\$ (915)

(a) Includes interest associated with the Supply segment with no additional allocation as the Supply segment was sufficiently capitalized.

Development

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile, 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress costs but denied the requested incentive for a 100 basis point adder to the return on equity.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a final order approving the application. The line was energized in April 2016, completing the approximately \$350 million project which includes additional substation security enhancements. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

9. Defined Benefits

(PPL, LKE and LG&E)

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

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2016	2015	2016 (a)	2015	2016	2015	2016 (a)	2015
PPL								
Service cost	\$ 16	\$ 20	\$ 17	\$ 21	\$ 49	\$ 76	\$ 53	\$ 60
Interest cost	44	42	58	80	131	152	182	236
Expected return on plan assets	(57)	(56)	(124)	(133)	(171)	(201)	(389)	(393)
Amortization of:								
Prior service cost	2	1	—	—	6	5	—	—
Actuarial loss	12	18	34	39	37	65	107	118
Net periodic defined benefit costs (credits) before settlements	17	25	(15)	7	52	97	(47)	21
Settlements	3	—	—	—	3	—	—	—
Net periodic defined benefit costs (credits) (b)	\$ 20	\$ 25	\$ (15)	\$ 7	\$ 55	\$ 97	\$ (47)	\$ 21

Pension Benefits

	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2016	2015	2016 (a)	2015	2016	2015	2016 (a)	2015
LKE								
Service cost	\$ 6	\$ 7			\$ 18	\$ 20		
Interest cost	18	17			53	51		
Expected return on plan assets	(23)	(22)			(68)	(66)		
Amortization of:								
Prior service cost	2	1			6	5		
Actuarial loss	5	9			15	26		
Net periodic defined benefit costs	<u>\$ 8</u>	<u>\$ 12</u>			<u>\$ 24</u>	<u>\$ 36</u>		

LG&E

Service cost	\$ —	\$ —			\$ 1	\$ 1		
Interest cost	4	3			11	10		
Expected return on plan assets	(5)	(5)			(15)	(15)		
Amortization of:								
Prior service cost	1	1			3	2		
Actuarial loss	2	3			5	9		
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 2</u>			<u>\$ 5</u>	<u>\$ 7</u>		

(a) See Note 2 for a discussion of changes to the discount rate used for the U.K. Pension Plans.

(b) For the nine months ended September 30, 2015, the total net periodic defined benefit cost includes \$18 million reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply prior to the spinoff.

Other Postretirement Benefits

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2016	2015	2016	2015
PPL				
Service cost	\$ 2	\$ 2	\$ 6	\$ 9
Interest cost	6	6	19	20
Expected return on plan assets	(6)	(6)	(17)	(20)
Amortization of actuarial loss	1	—	1	—
Net periodic defined benefit costs	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 9</u>	<u>\$ 9</u>

LKE

Service cost	\$ 1	\$ 1	\$ 3	\$ 4
Interest cost	2	2	7	7
Expected return on plan assets	(2)	(1)	(5)	(4)
Amortization of prior service cost	1	1	2	2
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 7</u>	<u>\$ 9</u>

(PPL Electric, LG&E and KU)

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

	Three Months		Nine Months	
	2016	2015	2016	2015
PPL Electric	\$ 6	\$ 8	\$ 17	\$ 24
LG&E	2	3	7	10
KU	2	4	8	13

Cash Flows - U.S. Pension Plans

(PPL & LKE)

During the nine months ended September 30, 2016, LKE contributed \$66 million to its pension plans. LKE does not anticipate making any additional significant contributions to these plans in 2016.

(PPL, LKE and LG&E)

During the nine months ended September 30, 2016, LG&E contributed \$35 million to its pension plan. LG&E does not anticipate making any additional contributions to the plan in 2016.

10. Commitments and Contingencies

Legal Matters

(All Registrants)

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

WKE Indemnification *(PPL and LKE)*

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

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

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth Circuit issued an order granting appellate review regarding the above matter. Oral argument before the Sixth Circuit was held in August 2015. In November 2015, the Sixth Circuit issued an opinion affirming the District Court's ruling that plaintiffs' state law claims are not preempted by the Clean Air Act and remanding the matter to the District Court for further proceedings. The District Court has issued an order setting a discovery schedule through the second quarter of 2017. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

Mill Creek Environmental Claims *(PPL, LKE and LG&E)*

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleged that various discharges at the Mill Creek plant constituted violations of the plant's water discharge permit. The Sierra Club sought civil penalties, injunctive relief, costs and attorney's fees. The parties reached a proposed settlement in the matter on September 27, 2016, which has been submitted to

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the court. LG&E has agreed to limited alterations to outfall facilities and discharge practices and to fund \$1 million in environmental enhancement projects focused on tree planting and water quality in Kentucky. The settlement includes no finding or agreement of any violation of law by LG&E and does not involve fines or civil penalties. The U.S. Department of Justice has 45 days to review the settlement before the court can approve. PPL, LKE and LG&E cannot predict the ultimate outcome of this matter, but do not presently expect the matter to have a material effect on plant operation, capital expenditures or operating costs, or to result in significant charges beyond the amounts previously recorded.

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

In October 2015, KU received a notice of intent from Earthjustice and the Sierra Club informing certain federal and state agencies of the Sierra Club's intent to file a citizen suit, following expiration of the mandatory 60-day notification period, for alleged violations of the Clean Water Act. The claimants allege discharges at the E.W. Brown plant in violation of applicable rules and the plant's water discharge permit. The claimants assert that, unless the alleged discharges are promptly brought into compliance, it intends to seek civil penalties, injunctive relief and attorney's fees. In November 2015, the claimants submitted an amended notice of intent to add the Kentucky Waterways Alliance as a claimant. On October 26, 2016, the claimants submitted an additional notice of intent alleging management of waste in a manner that may present an imminent and substantial endangerment under the RCRA. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E. W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Air Permit

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the Trimble County Unit 2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. On February 10, 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held on September 14, 2016. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Regulatory Issues (All Registrants)

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

Electricity - Reliability Standards

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

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

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

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

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules.

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

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

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

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

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

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a

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new ozone standard on October 1, 2015. The states and EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be predicted at this time.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. PPL, LKE, LG&E and KU anticipate that certain previously required compliance measures, such as upgraded or new sulfur dioxide Scrubbers at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, will help to achieve compliance with the new sulfur dioxide and ozone standards. If additional reductions are required, the costs could be significant.

Mercury and Air Toxics Standards (MATS)

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. The MATS rule was challenged by industry groups and states and was upheld by the U.S. Court of Appeals for the D. C. Circuit Court (D.C. Circuit Court) in April 2014. A group of states subsequently petitioned the U.S. Supreme Court (Supreme Court) to review this decision and, in June 2015, the Supreme Court held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The Supreme Court remanded the matter to the D.C. Circuit Court, which in December 2015 remanded the rule to the EPA without vacating it. The EPA has proposed a supplemental finding regarding costs of the rule and has announced that it intends to make a final determination in 2016. The EPA's MATS rule remains in effect during the pendency of the ongoing proceedings.

LG&E and KU have installed significant controls in response to the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded Scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU have received KPSC approval for a compliance plan providing for installation of additional MATS-related controls; however, the estimated cost of these controls is not expected to be significant for either LG&E or KU. PPL, LKE, LG&E and KU cannot predict the outcome of the MATS rule or its potential impact, if any, on plant operations, rate treatment or future capital or operating needs. See Note 6 for additional information.

New Source Review (NSR)

The NSR litigation brought by the EPA, states and environmental groups against coal-fired generating plants in past years continues to proceed through the courts. Although none of this litigation directly involves PPL, LKE, LG&E or KU, it can influence the permitting of large capital projects at LG&E's and KU's power plants, the costs of which cannot presently be determined but could be significant.

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate which establishes a comprehensive framework for the reduction of greenhouse gas (GHG) emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses. WPD expects these expenses to decrease as a result of energy efficiency measures and the removal of 18 fuel sources previously included in the allowance requirements.

The EPA's Rules under Section 111 of the Clean Air Act

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants in the United States. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. On February 9, 2016, the Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the Supreme Court if a writ of certiorari is filed and granted.

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

The EPA's Clean Power Plan

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

LG&E and KU are participating in the ongoing regulatory processes at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. A ruling from the D.C. Circuit Court may occur in late 2016 or in early 2017. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

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

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

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

matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable solely through citizen suits. LG&E and KU are also subject to state rules applicable to CCR management which may potentially be modified to reflect some or all requirements of the federal rule. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule which are pending before the D.C. Circuit Court of Appeals.

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

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015 and 2016. See Note 16 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms by reducing capture in the screens attached to cooling water intake structures (impingement) at generating facilities and the water volume brought into the facilities (entrainment). The requirements could impose significant costs for LG&E and KU which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final effluent limitations guidelines for wastewater discharge permits for new and existing steam electricity generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. It has not been decided how Kentucky intends to integrate the ELGs into its routine permit renewal process. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule which have been consolidated before the United States Fifth Circuit Court of Appeals. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current

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capital forecasts for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Clean Water Act Section 316(b)

The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed broad discretion to make site-specific determinations under the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Based on studies conducted by LG&E and KU to date, all plants will incur only insignificant operational costs. In addition, LG&E's Mill Creek Unit 1 is expected to incur capital costs. PPL, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs, which are subject to rate recovery, to be significant.

(All Registrants)

Waters of the United States (WOTUS)

The U.S. Court of Appeals for the Sixth Circuit has issued a stay of EPA's rule on the definition of WOTUS pending the court's review of the rule. The effect of the stay is that the WOTUS rule is not in effect anywhere in the United States. The ultimate outcome of the court's review of the rule remains uncertain. Because of the strict permitting programs already in place in Kentucky and Pennsylvania, the Registrants do not expect the rule to have a significant impact on their operations.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which was significantly updated in June 2016. In 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. The rulemaking, which could lead to a phase-out in the United States of all or some equipment containing PCBs, is not likely to be affected by the revisions to the Toxic Substances Control Act. The EPA has postponed the release of revisions to its proposed rulemaking. The Registrants cannot predict at this time the outcome of the proposed EPA rulemaking and what impact, if any, it would have on their facilities, but the costs could be significant.

Superfund and Other Remediation *(All Registrants)*

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. Should the EPA require different or additional measures in the future, however, or should PPL Electric's share of costs at multi-party sites increase substantially more than expected, the costs could be significant.

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

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. LG&E and KU lack information on the condition of such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these sites. At September 30, 2016 and December 31, 2015, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate additional sites previously owned or operated by PPL Electric predecessors or affiliates. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, the costs of remediation and other liabilities could be significant and may be as much as approximately \$30 million.

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

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coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

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

European Union Creosote Ban (PPL)

In 2011, the European Commission amended the European Union Biocides Directive to ban the use of creosote in contact with soil. Creosote is a wood preservative used to extend the life of wooden poles that support power lines. Although European Union member countries were required to pass implementing laws by 2012, the U.K. has not passed an implementing law and there are no legal penalties for failing to do so. The recent U.K. referendum in favor of the U.K.'s withdrawal from the European Union further reduces the likelihood that the U.K. will implement the European Union directive. In the unlikely event that the U.K. were to ban the use of creosote, WPD's creosote-treated wood poles would need to be replaced with an acceptable alternative at the time of routine replacement. Although the aggregate cost to replace poles could be significant, it would be incurred as poles are replaced in the ordinary course and would be subject to rate recovery. WPD has 1.4 million wood poles in its system. There are currently no alternative wood preservatives available that are acceptable to the industry and/or regulators.

Other

Guarantees and Other Assurances

(All Registrants)

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

(PPL)

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

(All Registrants)

The table below details guarantees provided as of September 30, 2016. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2016, was \$22 million for PPL and \$17 million for LKE. The total recorded liability at December 31, 2015, was \$25 million for PPL and \$18 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

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	Exposure at September 30, 2016	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	109 (c)	
<u>PPL Electric</u>		
Guarantee of inventory value	15 (d)	2018
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (e)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits. In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2016, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that fall outside the cap. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, a counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made and has disputed the demands. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum, and LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$124 million at September 30, 2016, consisting of LG&E's share of \$86 million and KU's share of \$38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 13 in PPL's, LKE's, LG&E's and KU's 2015 Form 10-K for additional information on the OVEC power purchase contract.

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

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

11. Related Party Transactions

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

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

	Three Months		Nine Months	
	2016	2015	2016	2015
PPL Electric from PPL Services	\$ 33	\$ 35	\$ 98	\$ 90
LKE from PPL Services	4	4	13	12
PPL Electric from PPL EU Services	17	12	50	44
LG&E from LKS	40	36	128	107
KU from LKS	46	43	151	127

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

Intercompany Borrowings (LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. At September 30, 2016 and December 31, 2015, \$138 million and \$54 million were outstanding and were reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at September 30, 2016 and December 31, 2015 were 2.02% and 1.74%.

LKE has a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2016 and December 31, 2015, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

Other (PPL Electric, LG&E and KU)

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

12. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three and nine months ended September 30, 2016 and 2015 consisted primarily of gains on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 14 for additional information on these derivatives.

13. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2016 and 2015, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2015 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 416	\$ 416	\$ —	\$ —	\$ 836	\$ 836	\$ —	\$ —
Restricted cash and cash equivalents (a)	29	29	—	—	33	33	—	—
Price risk management assets (b):								
Foreign currency contracts	110	—	110	—	209	—	209	—
Cross-currency swaps	153	—	153	—	86	—	86	—
Total price risk management assets	263	—	263	—	295	—	295	—
Auction rate securities (c)	—	—	—	—	2	—	—	2
Total assets	\$ 708	\$ 445	\$ 263	\$ —	\$ 1,166	\$ 869	\$ 295	\$ 2
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 54	\$ —	\$ 54	\$ —	\$ 71	\$ —	\$ 71	\$ —
Foreign currency contracts	14	—	14	—	1	—	1	—
Total price risk management liabilities	\$ 68	\$ —	\$ 68	\$ —	\$ 72	\$ —	\$ 72	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 36	\$ 36	\$ —	\$ —	\$ 47	\$ 47	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 38	\$ 38	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 11	\$ 11	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Cash collateral posted to counterparties (d)	8	8	—	—	9	9	—	—
Total assets	\$ 19	\$ 19	\$ —	\$ —	\$ 39	\$ 39	\$ —	\$ —

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	September 30, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 54	\$ —	\$ 54	\$ —	\$ 47	\$ —	\$ 47	\$ —
Total price risk management liabilities	\$ 54	\$ —	\$ 54	\$ —	\$ 47	\$ —	\$ 47	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 4	\$ 4	\$ —	\$ —	\$ 19	\$ 19	\$ —	\$ —
Cash collateral posted to counterparties (d)	8	8	—	—	9	9	—	—
Total assets	\$ 12	\$ 12	\$ —	\$ —	\$ 28	\$ 28	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 54	\$ —	\$ 54	\$ —	\$ 47	\$ —	\$ 47	\$ —
Total price risk management liabilities	\$ 54	\$ —	\$ 54	\$ —	\$ 47	\$ —	\$ 47	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 7	\$ 7	\$ —	\$ —	\$ 11	\$ 11	\$ —	\$ —
Total assets	\$ 7	\$ 7	\$ —	\$ —	\$ 11	\$ 11	\$ —	\$ —

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

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

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

Nonrecurring Fair Value Measurements (PPL)

See Note 8 for information regarding the estimated fair value of the Supply segment's net assets as of the June 1, 2015 spinoff date.

Financial Instruments Not Recorded at Fair Value (All Registrants)

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

	September 30, 2016		December 31, 2015	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 18,512	\$ 23,180	\$ 19,048	\$ 21,218
PPL Electric	2,831	3,372	2,828	3,088
LKE	5,089	5,832	5,088	5,384
LG&E	1,642	1,852	1,642	1,704
KU	2,327	2,701	2,326	2,467

(a) Amounts are net of debt issuance costs.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

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

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

Interest rate risk

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

Foreign currency risk

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

Commodity price risk

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

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

Volumetric risk

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

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO - ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2015 Form 10-K for additional information on revenue recognition under RIIO - ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity securities price risk

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

Credit Risk

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

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

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

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

Master Netting Arrangements

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

PPL, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at September 30, 2016 and December 31, 2015.

PPL, LKE and LG&E posted \$8 million of cash collateral under master netting arrangements at September 30, 2016 and \$9 million of cash collateral under master netting arrangements at December 31, 2015.

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KU did not post any cash collateral under master netting arrangements at September 30, 2016 and December 31, 2015.

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

Interest Rate Risk

(All Registrants)

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

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at September 30, 2016.

For the three months ended September 30, 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives and an insignificant amount of hedge ineffectiveness for the three months ended September 30, 2015. For the nine months ended September 30, 2016 and 2015, PPL had an insignificant amount of ineffectiveness associated with interest rate derivatives.

At September 30, 2016, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. In May 2016, \$460 million of WPD's U.S. dollar-denominated senior notes were repaid upon maturity and \$460 million notional value of cross-currency interest rate swap contracts matured. PPL recorded a \$46 million gain upon settlement of the cross-currency interest rate swap contracts, which largely offset a loss recorded on the revaluation of U.S. dollar-denominated senior notes.

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

PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges for the three and nine months ended September 30, 2016. As a result of the June 1, 2015 spinoff of PPL Energy Supply, all PPL cash flow hedges associated with PPL Energy Supply were ineffective and discontinued and therefore, reclassified into earnings during the second quarter 2015 and reflected in discontinued operations for the nine months ended September 30, 2015. See Note 8 for additional information.

At September 30, 2016, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2016, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

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

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no such contracts outstanding at September 30, 2016.

At September 30, 2016, PPL had \$22 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to \$19 million at December 31, 2015.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2016, the total exposure hedged by PPL was approximately £1.8 billion (approximately \$2.4 billion based on contracted rates). These contracts had termination dates ranging from October 2016 through December 2018.

In the third quarter of 2016, PPL settled foreign currency hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of approximately \$310 million of cash, and entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2016 and December 31, 2015.

See Notes 1 and 17 in each Registrant's 2015 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

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

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	September 30, 2016				December 31, 2015			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ 24	\$ —	\$ 5
Cross-currency swaps (b)	6	—	—	—	35	—	—	—
Foreign currency contracts	—	—	72	2	10	—	94	1
Total current	6	—	72	8	45	24	94	6
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	48	—	—	—	42
Cross-currency swaps (b)	147	—	—	—	51	—	—	—
Foreign currency contracts	—	—	38	12	—	—	105	—
Total noncurrent	147	—	38	60	51	—	105	42
Total derivatives	\$ 153	\$ —	\$ 110	\$ 68	\$ 96	\$ 24	\$ 199	\$ 48

- (a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

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

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ (21)	Interest expense	\$ (2)	\$ —	\$ (5)	\$ —
Cross-currency swaps	78	87	Interest expense	2	—	2	—
			Other income (expense) - net	86	—	80	—
Total	\$ 78	\$ 66		\$ 86	\$ —	\$ 77	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ 4					

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

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

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2015.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (27)	\$ (29)	Interest expense	\$ (2)	\$ —	\$ (9)	\$ —
			Discontinued operations	—	—	—	(77)
Cross-currency swaps	(3)	33	Interest expense	(1)	—	1	—
			Other income (expense) - net	(10)	—	22	—
Commodity contracts	—	—	Discontinued operations	—	—	13	7
Total	\$ (30)	\$ 4		\$ (13)	\$ —	\$ 27	\$ (70)
Net Investment Hedges:							
Foreign currency contracts	\$ 7	\$ 6					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
Foreign currency contracts	Other income (expense) - net	\$	78	\$	64
Interest rate swaps	Interest expense		(2)		(6)
	Total	\$	76	\$	58

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$	(42)	\$	(22)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$	(5)	\$	(2)

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended September 30, 2015. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (42)	\$ (22)

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended September 30, 2015. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (21)	\$ (11)

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended September 30, 2015. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (21)	\$ (11)

(LKE and LG&E)

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

	September 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 6	\$ —	\$ 5
Total current	—	6	—	5
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	48	—	42
Total noncurrent	—	48	—	42
Total derivatives	\$ —	\$ 54	\$ —	\$ 47

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

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

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

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2015.

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

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (5)	\$ (2)

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

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

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

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
September 30, 2016								
Treasury Derivatives								
PPL	\$ 263	\$ 14	\$ —	\$ 249	\$ 68	\$ 14	\$ 8	\$ 46
LKE	—	—	—	—	54	—	8	46
LG&E	—	—	—	—	54	—	8	46

December 31, 2015

Treasury Derivatives

PPL	\$ 295	\$ 25	\$ —	\$ 270	\$ 72	\$ 25	\$ 9	\$ 38
LKE	—	—	—	—	47	—	9	38
LG&E	—	—	—	—	47	—	9	38

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and

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

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

(PPL, LKE and LG&E)

At September 30, 2016, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 29	\$ 29	\$ 29
Aggregate fair value of collateral posted on these derivative instruments	7	7	7
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	22	22	22

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

15. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2016 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the other intangible assets for the nine months ended September 30, 2016 was primarily due to an increase in the gross carrying amount of indefinite lived intangibles at WPD attributable to new easements of \$73 million, partially offset by the effect of foreign currency exchange rates.

16. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

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

	PPL	LKE	LG&E	KU
Balance at December 31, 2015	\$ 586	\$ 535	\$ 175	\$ 360
Accretion	20	18	6	12
Effect of foreign currency exchange rates	(7)	—	—	—
Changes in estimated timing or cost	(116)	(116)	(24)	(92)
Obligations settled	(15)	(15)	(11)	(4)
Balance at September 30, 2016	\$ 468	\$ 422	\$ 146	\$ 276

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LG&E and KU recorded decreases to existing ARO balances of \$118 million (\$24 million at LG&E and \$94 million at KU) during the three and nine months ended September 30, 2016 due to revisions in the amounts and timing of future expected costs related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closure. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 10 for information on the final CCR rule and Note 6 for information on the rate recovery applications with the KPSC. LG&E's and KU's accretion and ARO-related depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

17. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

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

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans		Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	
PPL							
June 30, 2016	\$ (716)	\$ —	\$ (5)	\$ (1)	\$ (5)	\$ (2,130)	\$ (2,857)
Amounts arising during the period	(641)	—	62	—	—	(6)	(585)
Reclassifications from AOCI	—	—	(69)	—	—	31	(38)
Net OCI during the period	(641)	—	(7)	—	—	25	(623)
September 30, 2016	\$ (1,357)	\$ —	\$ (12)	\$ (1)	\$ (5)	\$ (2,105)	\$ (3,480)
December 31, 2015	\$ (520)	\$ —	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the period	(837)	—	57	—	—	(4)	(784)
Reclassifications from AOCI	—	—	(62)	(1)	1	94	32
Net OCI during the period	(837)	—	(5)	(1)	1	90	(752)
September 30, 2016	\$ (1,357)	\$ —	\$ (12)	\$ (1)	\$ (5)	\$ (2,105)	\$ (3,480)
June 30, 2015	\$ (435)	\$ —	\$ 2	\$ —	\$ (3)	\$ (1,848)	\$ (2,284)
Amounts arising during the period	52	—	(19)	—	—	—	33
Reclassifications from AOCI	—	—	10	—	—	35	45
Net OCI during the period	52	—	(9)	—	—	35	78
September 30, 2015	\$ (383)	\$ —	\$ (7)	\$ —	\$ (3)	\$ (1,813)	\$ (2,206)
December 31, 2014	\$ (286)	\$ 202	\$ 20	\$ 1	\$ 3	\$ (2,214)	\$ (2,274)
Amounts arising during the period	(97)	7	8	—	(6)	52	(36)
Reclassifications from AOCI	—	(2)	20	(1)	—	111	128
Net OCI during the period	(97)	5	28	(1)	(6)	163	92
Distribution of PPL Energy Supply (Note 8)	—	(207)	(55)	—	—	238	(24)
September 30, 2015	\$ (383)	\$ —	\$ (7)	\$ —	\$ (3)	\$ (1,813)	\$ (2,206)
LKE							
June 30, 2016				\$ (1)	\$ (9)	\$ (33)	\$ (43)
Amounts arising during the period				—	—	—	—
Reclassifications from AOCI				—	—	1	1
Net OCI during the period				—	—	1	1
September 30, 2016				\$ (1)	\$ (9)	\$ (32)	\$ (42)

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	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans		Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	
December 31, 2015				\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the period				—	—	1	1
Reclassifications from AOCI				(1)	1	3	3
Net OCI during the period				(1)	1	4	4
September 30, 2016				\$ (1)	\$ (9)	\$ (32)	\$ (42)
June 30, 2015				\$ (1)	\$ (7)	\$ (44)	\$ (52)
Amounts arising during the period				—	—	—	—
Reclassifications from AOCI				—	—	1	1
Net OCI during the period				—	—	1	1
September 30, 2015				\$ (1)	\$ (7)	\$ (43)	\$ (51)
December 31, 2014				\$ —	\$ (8)	\$ (37)	\$ (45)
Amounts arising during the period				—	—	(8)	(8)
Reclassifications from AOCI				(1)	1	2	2
Net OCI during the period				(1)	1	(6)	(6)
September 30, 2015				\$ (1)	\$ (7)	\$ (43)	\$ (51)

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 9 for additional information.

Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2016	2015	2016	2015	
Available-for-sale securities	\$ —	\$ —	\$ —	\$ 4	Other Income (Expense) - net
Total Pre-tax	—	—	—	4	
Income Taxes	—	—	—	(2)	
Total After-tax	—	—	—	2	
Qualifying derivatives					
Interest rate swaps	(2)	(2)	(5)	(9)	Interest Expense
	—	—	—	(77)	Discontinued operations
Cross-currency swaps	86	(10)	80	22	Other Income (Expense) - net
	2	(1)	2	1	Interest Expense
Commodity contracts	—	—	—	20	Discontinued operations
Total Pre-tax	86	(13)	77	(43)	
Income Taxes	(17)	3	(15)	23	
Total After-tax	69	(10)	62	(20)	

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Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2016	2015	2016	2015	
Equity investees' AOCI	—	—	1	2	Other Income (Expense) - net
Total Pre-tax	—	—	1	2	
Income Taxes	—	—	—	(1)	
Total After-tax	—	—	1	1	
Defined benefit plans					
Prior service costs	(1)	—	(2)	—	
Net actuarial loss	(41)	(45)	(121)	(146)	
Total Pre-tax	(42)	(45)	(123)	(146)	
Income Taxes	11	10	28	35	
Total After-tax	(31)	(35)	(95)	(111)	
Total reclassifications during the period	\$ 38	\$ (45)	\$ (32)	\$ (128)	

18. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

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

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. Public business entities may early adopt this guidance in annual reporting periods beginning after December 15, 2016. The Registrants expect to adopt this guidance effective January 1, 2018.

The Registrants continue to assess the impact of adopting this guidance, as well as the transition method they will use, and are monitoring the development of industry specific application guidance which could impact those assessments.

Accounting for Leases

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

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

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

The Registrants are currently assessing the impact of adopting this guidance.

Accounting for Financial Instrument Credit Losses

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

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

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

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

(All Registrants)

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

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2015 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2016 with the same periods in 2015. For PPL, it also provides a detailed analysis of earnings by segment and a description of key factors expected to impact future earnings. The segment earnings discussion includes financial information prepared in accordance with GAAP as well as non-GAAP financial measures including "Earnings from Ongoing Operations" and "Margins". This discussion provides explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. For PPL Electric, LKE, LG&E and KU, a summary of earnings is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

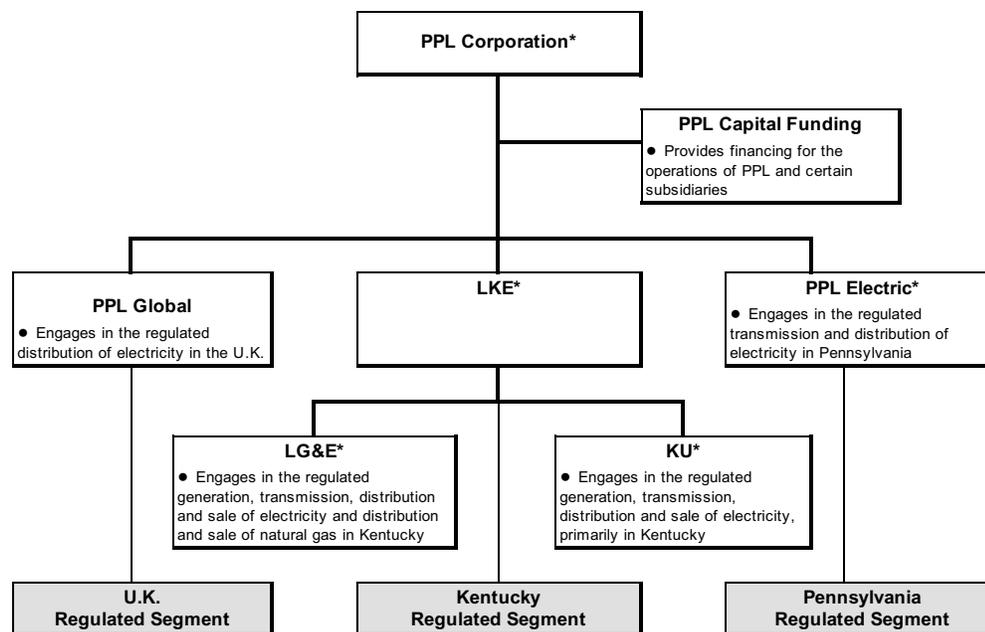
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2015, PPL completed the spinoff of PPL Energy Supply which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See Note 8 in PPL's 2015 Form 10-K for additional information.

PPL's principal subsidiaries are shown below (* denotes SEC registrant).



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

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

(PPL Electric)

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

(LKE)

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

(LG&E)

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

(KU)

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

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

Business Strategy

(All Registrants)

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL completed its strategic transformation to a fully regulated business model consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

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

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

Rate base growth in the domestic utilities is expected to result in strong earnings growth for the foreseeable future. Net income from the U.K. Regulated segment is expected to be relatively flat through 2016. In 2017, earnings are expected to decline for the U.K. Regulated segment mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period and earnings are expected to grow after 2017 commensurate with RAV growth. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2015 Form 10-K for additional information on RIIO-ED1.

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. See "Financial and Operational Developments - U.K. Membership in European Union" for a discussion of the U.K. earnings hedging activity in the third and fourth quarters of 2016.

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

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

Financial and Operational Developments

(PPL)

U.K. Membership in European Union

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union (EU). In October 2016, the U.K. Prime Minister, Theresa May, announced her intent to invoke Article 50 of the Lisbon Treaty (Article 50) by March 31, 2017. Article 50 specifies that if a member state decides to withdraw from the EU, it should notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to whether the events referred to in the Prime Minister's announcement will occur within the times suggested as well as the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

In response to the decrease in the GBP to U.S. dollar exchange rate that occurred subsequent to the U.K.'s vote to withdraw from the EU, PPL has executed additional hedges to mitigate the foreign currency exposure to the Company's U.K. earnings. In the third quarter of 2016, PPL settled existing hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of approximately \$310 million of cash, and entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Additionally, in the third and fourth quarters of 2016, PPL restructured existing hedges related to 2016 and 2017 anticipated earnings and entered into additional hedges using forward contracts for 2018. This restructuring did not have a significant impact on 2016 expected net income as the hedge values continue to be marked to fair value. As of October 31, 2016, PPL's foreign currency exposure related to budgeted earnings is 91% hedged for the remainder of 2016 at an average rate of \$1.29 per GBP, 94% hedged for 2017 at an average rate of \$1.25 per GBP and 93% hedged for 2018 at an average rate of \$1.42 per GBP.

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

Regulatory Requirements

(All Registrants)

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

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs, ELGs, MATS and the Clean Power Plan. See Note 6, Note 10 and Note 16 to the Financial Statements for a discussion of the other significant environmental matters.

(PPL)

Discontinued Operations

The operations of PPL's Supply segment prior to its June 1, 2015, spinoff are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the September 2015 Statements of Income.

See Note 8 to the Financial Statements for additional information related to the spinoff of PPL Energy Supply, including the components of Discontinued Operations.

U.K. Distribution Revenue Reduction

In December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction in GBP, together with the associated carrying cost will occur in the regulatory year which began April 1, 2016. Under GAAP, WPD does not record a receivable for under-recovery of regulated income (which this reduction represents). As a result, revenues for the U.K. Regulated segment were adversely affected by \$19 million (\$15 million after-tax or \$0.02 per share) in 2015 and \$40 million (\$31 million after-tax or \$0.05 per share) in 2014. Revenues for the U.K. Regulated segment were positively affected by \$14 million (\$11 million after-tax or \$0.02 per share) and \$24 million (\$19 million after-tax or \$0.03 per share) for the three and nine months ended September 30, 2016. PPL projects revenues in 2016 will be positively affected by \$37 million (\$29 million after-tax or \$0.04 per share) and revenues for 2017 will be positively affected by \$17 million (\$14 million after-tax or \$0.02 per share).

U.K. Tax Rate Change

The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result of this change, PPL reduced its net deferred tax liabilities and recognized an income tax benefit of \$42 million in the third quarter of 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and is treated as a special item.

Discount Rate Change for U.K. Pension Plans

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. For the three and nine months ended September 30, 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of \$10 million (\$8 million after-tax or \$0.01 per share) and \$31 million (\$25 million after-tax or \$0.04 per share). Based on current estimates, PPL expects this change to reduce net periodic defined benefit costs recognized on PPL's Statement of Income by \$40 million (\$32 million after-tax or \$0.05 per share) in 2016. See "Application of Critical Accounting Policies-Defined Benefits" in PPL's 2015 Form 10-K for additional information.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

On November 1, 2016, LG&E and KU announced that on November 23, 2016, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases to be requested are an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E and would become effective in July 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program. The applications are to be based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return-on-equity of 10.23%. LG&E and KU cannot predict the outcome of these proceedings.

(LKE and KU)

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On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. The filing was made in accordance with FERC Order No. 631 whereby a rate filing is required to include the costs of ARO's in rates. If approved, KU will begin including the closure costs in its annual true-up filing for 2016 for new rates effective July 1, 2017. The filing is not expected to have a material impact on KU.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2016 with the same periods in 2015. The discussion for PPL provides a review of results by reportable segment. The "Segment Earnings" discussion includes financial information prepared in accordance with GAAP as well as non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins". This discussion provides explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure.

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

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

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

The "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three and nine months ended September 30, 2016 with the same periods in 2015 and provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

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

PPL Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues	\$ 1,889	\$ 1,878	\$ 11	\$ 5,685	\$ 5,889	\$ (204)
Operating Expenses						
Operation						
Fuel	227	228	(1)	607	695	(88)
Energy purchases	151	177	(26)	531	676	(145)
Other operation and maintenance	417	482	(65)	1,292	1,405	(113)
Depreciation	232	226	6	692	658	34
Taxes, other than income	76	79	(3)	229	241	(12)
Total Operating Expenses	1,103	1,192	(89)	3,351	3,675	(324)
Other Income (Expense) - net	49	75	(26)	284	61	223
Interest Expense	223	221	2	671	645	26
Income Taxes	139	144	(5)	510	432	78
Income from Continuing Operations After Income Taxes	473	396	77	1,437	1,198	239
Income (Loss) from Discontinued Operations (net of income taxes)	—	(3)	3	—	(915)	915
Net Income	\$ 473	\$ 393	\$ 80	\$ 1,437	\$ 283	\$ 1,154

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Domestic:		
PPL Electric Distribution price (a)	\$ 23	\$ 97
PPL Electric Distribution volume	11	(23)
PPL Electric PLR Revenue (b)	(21)	(125)
PPL Electric Transmission Formula Rate	12	47
LKE Base rates	—	68
LKE Volumes	32	(38)
LKE Fuel and other energy prices (b)	(11)	(85)
LKE ECR	8	30
Other	(6)	(12)
Total Domestic	48	(41)
U.K.:		
Price	59	29
Volume	(16)	(37)
Foreign currency exchange rates	(77)	(139)
Other	(3)	(16)
Total U.K.	(37)	(163)
Total	\$ 11	\$ (204)

(a) Distribution rate case effective January 1, 2016, resulted in increases of \$41 million and \$121 million for the three and nine months ended September 30, 2016.

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(b) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs at LKE and lower recoveries of energy purchases at PPL Electric.

Fuel

Fuel decreased \$88 million for the nine months ended September 30, 2016 compared with 2015, primarily due to a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased by \$26 million for the three months ended September 30, 2016 compared with 2015, primarily due to a \$37 million decrease in PLR prices, partially offset by a \$14 million increase in PLR volumes at PPL Electric.

Energy purchases decreased by \$145 million for the nine months ended September 30, 2016 compared with 2015, primarily due to a \$90 million decrease in PLR prices and a \$23 million decrease in PLR volumes at PPL Electric, a \$14 million decrease in natural gas volumes and a \$13 million decrease in natural gas prices at LKE.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2016 compared with 2015 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
LKE coal plant operations and maintenance (a)	\$ 2	\$ (12)
LKE pension expense (b)	(2)	(10)
PPL Electric Act 129 costs incurred	(7)	(14)
PPL Electric vegetation management	(5)	1
PPL Electric payroll-related costs	(7)	(19)
PPL Electric storm costs	1	7
PPL Electric bad debts	(5)	(6)
Corporate costs previously included in discontinued operations (c)	1	10
Other	(3)	5
U.K.:		
Network maintenance	(2)	13
Foreign currency exchange rates	(10)	(19)
Pension (d)	(21)	(64)
Other	(7)	(5)
Total	\$ (65)	\$ (113)

(a) The decrease for the nine month period was primarily due to a reduction of costs associated with the 2015 retirement of units at the Cane Run and Green River plants, partially offset by Cane Run 7 operations.

(b) The decrease for the nine month period was primarily due to higher discount rates and deferred amortization of actuarial losses.

(c) The increase for the nine month period was due to corporate costs allocated to PPL Energy Supply (and included in discontinued operations) prior to the June 2015 spinoff. As a result of the spinoff on June 1, 2015, these corporate costs now remain in continuing operations.

(d) The decreases were primarily due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.

Depreciation

Depreciation increased by \$6 million and \$34 million for the three and nine months ended September 30, 2016 compared with 2015, primarily due to additional assets placed into service, partially offset by the impact of foreign currency exchange rates at WPD, net of retirements.

Other Income (Expense) - net

Other income (expense) - net decreased by \$26 million and increased by \$223 million for the three and nine months ended September 30, 2016 compared with 2015, primarily due to changes in realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2016 compared with 2015 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ 17	\$ 58
Foreign currency exchange rates	(14)	(25)
Other	(1)	(7)
Total	<u>\$ 2</u>	<u>\$ 26</u>

(a) The increase in both periods was primarily due to debt issuances at WPD in November 2015, LG&E and KU in September 2015 and PPL Capital Funding in May 2016 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2016 compared with 2015 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 23	\$ 103
Valuation allowances adjustments	4	5
Impact of U.K. income tax rates	3	2
Federal and state tax reserve adjustments (a)	9	21
U.K. Finance Act 2016 adjustment (b)	(42)	(42)
Stock-based compensation (c)	(1)	(12)
Other	(1)	1
Total	<u>\$ (5)</u>	<u>\$ 78</u>

(a) During the three and nine months ended September 30, 2015, PPL recorded a \$9 million tax benefit related to a planned amendment of a prior period tax return.

During the nine months ended September 30, 2015, PPL recorded a tax benefit to adjust the settled refund amount approved by the Joint Committee on Taxation for the open audit years 1998-2011.

(b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

(c) During the three and nine months ended September 30, 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (Loss) from Discontinued Operations (net of income taxes) includes the results of operations of PPL Energy Supply, which was spun off from PPL on June 1, 2015 and substantially represents PPL's former Supply segment. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Segment Earnings

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
U.K. Regulated	\$ 281	\$ 249	\$ 32	\$ 915	\$ 814	\$ 101
Kentucky Regulated	126	111	15	314	267	47
Pennsylvania Regulated	91	55	36	263	191	72
Corporate and Other (a)	(25)	(19)	(6)	(55)	(74)	19
Discontinued Operations (b)	—	(3)	3	—	(915)	915
Net Income	\$ 473	\$ 393	\$ 80	\$ 1,437	\$ 283	\$ 1,154

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The nine months ended September 30, 2015 also includes certain costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.
- (b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's former Supply segment, the earnings of the Supply segment prior to the spinoff are included in Discontinued Operations. The nine months ended September 30, 2015 includes an \$879 million charge reflecting the difference between PPL's recorded value for the Supply segment and its estimated fair value as of the spinoff date, determined in accordance with applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.

Earnings from Ongoing Operations

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

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

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

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency-related economic activity.

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

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	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
U.K. Regulated	\$ 235	\$ 195	\$ 40	\$ 741	\$ 774	\$ (33)
Kentucky Regulated	126	112	14	314	280	34
Pennsylvania Regulated	91	55	36	263	191	72
Corporate and Other	(25)	(15)	(10)	(53)	(50)	(3)
Earnings from Ongoing Operations	\$ 427	\$ 347	\$ 80	\$ 1,265	\$ 1,195	\$ 70

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

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment represents 64% of PPL's Net Income for the nine months ended September 30, 2016 and 39% of PPL's assets at September 30, 2016.

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating revenues	\$ 515	\$ 552	\$ (37)	\$ 1,673	\$ 1,836	\$ (163)
Other operation and maintenance	78	118	(40)	260	332	(72)
Depreciation	58	63	(5)	178	181	(3)
Taxes, other than income	34	38	(4)	104	111	(7)
Total operating expenses	170	219	(49)	542	624	(82)
Other Income (Expense) - net	50	77	(27)	283	65	218
Interest Expense	100	109	(9)	310	312	(2)
Income Taxes	14	52	(38)	189	151	38
Net Income	281	249	32	915	814	101
Less: Special Items	46	54	(8)	174	40	134
Earnings from Ongoing Operations	\$ 235	\$ 195	\$ 40	\$ 741	\$ 774	\$ (33)

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

	Income Statement Line Item	Three Months		Nine Months	
		2016	2015	2016	2015
Foreign currency-related economic hedges, net of tax of \$103, (\$29), \$34, (\$10) (a)	Other Income (Expense) - net	\$ (193)	\$ 54	\$ (65)	\$ 20
Settlement of foreign currency contracts, net of tax of (\$108), \$0, (\$108), \$0 (b)	Other Income (Expense) - net	202	—	202	—
Change in U.K. tax rate (c)	Income Taxes	37	—	37	—
WPD Midlands acquisition-related adjustment, net of tax of \$0, \$0, \$0, (\$1)	Other operation and maintenance	—	—	—	2
Settlement of certain income tax positions (d)	Income Taxes	—	—	—	18
Total special items		\$ 46	\$ 54	\$ 174	\$ 40

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. The three and nine months ended September 30, 2016 include the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.

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- (b) In the third quarter of 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense)-net" on the Statement of Income.
- (c) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result of this change, PPL reduced its net deferred tax liabilities and recognized an income tax benefit of \$42 million in the third quarter of 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and was treated as a special item.
- (d) Relates to the April 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.

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

	<u>Three Months</u>	<u>Nine Months</u>
U.K.		
Gross margins	\$ 45	\$ (11)
Other operation and maintenance	26	49
Depreciation	(3)	(12)
Interest expense	(5)	(23)
Other	(1)	(3)
Income taxes	(5)	13
U.S.		
Interest expense and other	2	(3)
Income taxes	(10)	(5)
Foreign currency exchange, after-tax	(9)	(38)
Earnings from Ongoing Operations	<u>40</u>	<u>(33)</u>
Special items, after-tax	(8)	134
Net Income	<u>\$ 32</u>	<u>\$ 101</u>

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$21 million from lower pension expense due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate methodology and \$2 million from lower network maintenance expense.
- Lower other operation and maintenance expense for the nine month period primarily due to \$64 million from lower pension expense due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate methodology, partially offset by \$13 million from higher network maintenance expense.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 22% of PPL's Net Income for the nine months ended September 30, 2016 and 36% of PPL's assets at September 30, 2016.

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

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	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating revenues	\$ 835	\$ 801	\$ 34	\$ 2,382	\$ 2,414	\$ (32)
Fuel	227	228	(1)	607	695	(88)
Energy purchases	24	23	1	118	143	(25)
Other operation and maintenance	197	202	(5)	603	625	(22)
Depreciation	102	97	5	301	286	15
Taxes, other than income	16	14	2	46	43	3
Total operating expenses	566	564	2	1,675	1,792	(117)
Other Income (Expense) - net	(3)	(2)	(1)	(9)	(8)	(1)
Interest Expense	65	56	9	194	167	27
Income Taxes	75	68	7	190	180	10
Net Income	126	111	15	314	267	47
Less: Special Items	—	(1)	1	—	(13)	13
Earnings from Ongoing Operations	\$ 126	\$ 112	\$ 14	\$ 314	\$ 280	\$ 34

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

	Income Statement Line Item	Three Months		Nine Months	
		2016	2015	2016	2015
LKE acquisition-related adjustment, net of tax of \$0, \$0, \$0, \$0 (a)	Other Income (Expense) - net	\$ —	\$ (1)	\$ —	\$ (5)
Certain valuation allowances, net of tax of \$0, \$0, \$0, \$0 (b)	Income Taxes	—	—	—	(8)
Total Special Items		\$ —	\$ (1)	\$ —	\$ (13)

- (a) Recorded at PPL and allocated to the Kentucky Regulated segment. The amount represents a settlement between E.ON AG (a German corporation and the indirect parent of E.ON US Investments Corp., the former parent of LKE) and PPL for a tax matter.
- (b) Recorded at LKE and represents a valuation allowance against tax credits expiring in 2016 and 2017 that are more likely than not to expire before being utilized.

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

	Three Months	Nine Months
Kentucky Gross Margins	\$ 27	\$ 63
Other operation and maintenance	10	26
Depreciation	(2)	(1)
Taxes, other than income	(3)	(3)
Other Income (Expense) - net	(2)	(6)
Interest Expense	(9)	(27)
Income Taxes	(7)	(18)
Special items, after-tax	1	13
Net Income	\$ 15	\$ 47

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance expense for the nine month period primarily due to \$12 million of lower coal plant operations and maintenance expense as a result of units retired in 2015 at the Cane Run and Green River plants and \$10 million of lower pension expense mainly due to higher discount rates and deferred amortization of actuarial losses.
- Higher interest expense for the three and nine month periods primarily due to the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500

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million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced by LKE in November 2015.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 18% of PPL's Net Income for the nine months ended September 30, 2016 and 24% of PPL's assets at September 30, 2016.

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating revenues	\$ 539	\$ 519	\$ 20	\$ 1,619	\$ 1,625	\$ (6)
Energy purchases						
External	129	154	(25)	414	519	(105)
Intersegment	—	—	—	—	14	(14)
Other operation and maintenance	143	162	(19)	431	435	(4)
Depreciation	64	55	9	185	158	27
Taxes, other than income	26	27	(1)	79	87	(8)
Total operating expenses	362	398	(36)	1,109	1,213	(104)
Other Income (Expense) - net	4	1	3	12	5	7
Interest Expense	32	32	—	97	96	1
Income Taxes	58	35	23	162	130	32
Net Income	91	55	36	263	191	72
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 91	\$ 55	\$ 36	\$ 263	\$ 191	\$ 72

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

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

	Three Months	Nine Months
Pennsylvania Gross Delivery Margins	\$ 52	\$ 126
Other operation and maintenance	12	(3)
Depreciation	(9)	(27)
Taxes, other than income	1	2
Other Income (Expense) - net	3	7
Interest Expense	—	(1)
Income Taxes	(23)	(32)
Net Income	\$ 36	\$ 72

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$6 million of lower payroll related costs and \$6 million of lower bad debt expenses.
- Higher other operation and maintenance expense for the nine month period primarily due to \$10 million of higher corporate service costs allocated to PPL Electric and \$9 million of higher costs for additional work done by outside vendors, offset by \$19 million of lower payroll related costs.
- Higher depreciation expense for the three and nine month periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.

- Higher income taxes for the three and nine month periods primarily due to higher pre-tax income.

Reconciliation of Earnings from Ongoing Operations

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

	2016 Three Months					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 281	\$ 126	\$ 91	\$ (25)	\$ —	\$ 473
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of \$103	(193)	—	—	—	—	(193)
Other:						
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	—	202
Change in U.K. tax rate	37	—	—	—	—	37
Total Special Items	<u>46</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>46</u>
Earnings from Ongoing Operations	<u>\$ 235</u>	<u>\$ 126</u>	<u>\$ 91</u>	<u>\$ (25)</u>	<u>\$ —</u>	<u>\$ 427</u>
	2015 Three Months					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 249	\$ 111	\$ 55	\$ (18)	\$ (4)	\$ 393
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of (\$29)	54	—	—	—	—	54
Spinoff of the Supply segment:						
Discontinued operations, net of tax of (\$3)	—	—	—	—	(4)	(4)
Transition and transaction costs, net of tax of \$1	—	—	—	(1)	—	(1)
Employee transitional services, net of tax of \$1	—	—	—	(1)	—	(1)
Separation benefits, net of tax of \$0	—	—	—	(1)	—	(1)
Other:						
LKE acquisition-related adjustment, net of tax of \$0	—	(1)	—	—	—	(1)
Total Special Items	<u>54</u>	<u>(1)</u>	<u>—</u>	<u>(3)</u>	<u>(4)</u>	<u>46</u>
Earnings from Ongoing Operations	<u>\$ 195</u>	<u>\$ 112</u>	<u>\$ 55</u>	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ 347</u>
	2016 Nine Months					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 915	\$ 314	\$ 263	\$ (55)	\$ —	\$ 1,437
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of \$34	(65)	—	—	—	—	(65)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(2)	—	(2)
Other:						
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	—	202
Change in U.K. tax rate	37	—	—	—	—	37
Total Special Items	<u>174</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>172</u>
Earnings from Ongoing Operations	<u>\$ 741</u>	<u>\$ 314</u>	<u>\$ 263</u>	<u>\$ (53)</u>	<u>\$ —</u>	<u>\$ 1,265</u>

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	2015 Nine Months					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 814	\$ 267	\$ 191	\$ (73)	\$ (916)	\$ 283
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of (\$10)	20	—	—	—	—	20
Spinoff of the Supply segment:						
Discontinued operations, net of tax of \$37	—	—	—	—	(916)	(916)
Transition and transaction costs, net of tax of \$0	—	—	—	(16)	—	(16)
Employee transitional services, net of tax of \$2	—	—	—	(4)	—	(4)
Separation benefits, net of tax of \$1	—	—	—	(3)	—	(3)
Other:						
WPD Midlands acquisition-related adjustment, net of tax of (\$1)	2	—	—	—	—	2
Settlement of certain income tax positions	18	—	—	—	—	18
Certain valuation allowances, net of tax of \$0	—	(8)	—	—	—	(8)
LKE acquisition-related adjustment, net of tax of \$0	—	(5)	—	—	—	(5)
Total Special Items	40	(13)	—	(23)	(916)	(912)
Earnings from Ongoing Operations	\$ 774	\$ 280	\$ 191	\$ (50)	\$ —	\$ 1,195

Margins

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

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the electricity transmission and distribution delivery operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "Energy purchases from affiliate" in the reconciliation tables. As a result of the June 2015 spinoff of PPL Energy Supply and the formation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are reflected in "Energy Purchases" in the reconciliation tables. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations.

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Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
U.K.						
U.K. Gross Margins	\$ 476	\$ 505	\$ (29)	\$ 1,566	\$ 1,709	\$ (143)
Impact of changes in foreign currency exchange rates			(74)			(132)
Change in U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ 45			\$ (11)
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 237	\$ 225	\$ 12	\$ 676	\$ 661	\$ 15
KU	300	285	15	857	809	48
LKE	\$ 537	\$ 510	\$ 27	\$ 1,533	\$ 1,470	\$ 63
Pennsylvania Regulated						
Pennsylvania Gross Delivery Margins						
Distribution	\$ 246	\$ 207	\$ 39	\$ 721	\$ 642	\$ 79
Transmission	115	102	13	332	285	47
Total	\$ 361	\$ 309	\$ 52	\$ 1,053	\$ 927	\$ 126

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the three months ended September 30, 2016 compared with 2015 primarily due to \$59 million from the April 1, 2016 price increase, which includes \$14 million of the recovery of prior customer rebates, partially offset by \$16 million of lower volumes.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased for the nine months ended September 30, 2016 compared with 2015 primarily due to \$89 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1 and lower volumes of \$37 million, partially offset by \$97 million from the April 1, 2016 price increase, which includes \$24 million of the recovery of prior customer rebates, and \$21 million of other revenue adjustments in 2016.

Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended September 30, 2016 compared with 2015 primarily due to \$22 million of increased sales volumes (\$9 million at LG&E and \$13 million at KU) driven by warmer weather.

Kentucky Gross Margins increased for the nine months ended September 30, 2016 compared with 2015 primarily due to higher base rates of \$68 million (\$4 million at LG&E and \$64 million at KU) and returns on additional environmental capital investments of \$11 million at LG&E. The increase in base rates was the result of new rates approved by the KPSC effective July 1, 2015. These increases were partially offset by lower sales volumes of \$10 million (\$2 million at LG&E and \$8 million at KU) driven by milder weather in the first quarter of 2016.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased for the three months ended September 30, 2016 compared with 2015 primarily due to \$30 million of higher base rates, effective January 1, 2016 as a result of the 2015 rate case combined with a \$12 million favorable impact of warmer summer weather.

Distribution margins increased for the nine months ended September 30, 2016 compared with 2015 primarily due to \$93 million of higher base rates, effective January 1, 2016, partially offset by a \$13 million unfavorable impact of milder winter weather.

Transmission

Transmission margins increased for the three and nine month periods ended September 30, 2016 compared with 2015 primarily due to returns on additional capital investments focused on replacing aging infrastructure and improving reliability.

Reconciliation of Margins

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

	2016 Three Months					2015 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 504 (c)	\$ 835	\$ 539	\$ 11	\$ 1,889	\$ 540 (c)	\$ 801	\$ 519	\$ 18	\$ 1,878
Operating Expenses										
Fuel	—	227	—	—	227	—	228	—	—	228
Energy purchases	—	24	129	(2)	151	—	23	154	—	177
Other operation and maintenance	28	33	24	332	417	35	28	31	388	482
Depreciation	—	14	—	218	232	—	11	—	215	226
Taxes, other than income	—	—	25	51	76	—	1	25	53	79
Total Operating Expenses	28	298	178	599	1,103	35	291	210	656	1,192
Total	\$ 476	\$ 537	\$ 361	\$ (588)	\$ 786	\$ 505	\$ 510	\$ 309	\$ (638)	\$ 686

	2016 Nine Months					2015 Nine Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,641 (c)	\$ 2,382	\$ 1,619	\$ 43	\$ 5,685	\$ 1,801 (c)	\$ 2,414	\$ 1,625	\$ 49	\$ 5,889
Operating Expenses										
Fuel	—	607	—	—	607	—	695	—	—	695
Energy purchases	—	118	414	(1)	531	—	143	519	14	676
Energy purchases from affiliate	—	—	—	—	—	—	—	14	(14)	—
Other operation and maintenance	75	81	77	1,059	1,292	92	77	84	1,152	1,405
Depreciation	—	40	—	652	692	—	26	—	632	658
Taxes, other than income	—	3	75	151	229	—	3	81	157	241
Total Operating Expenses	75	849	566	1,861	3,351	92	944	698	1,941	3,675
Total	\$ 1,566	\$ 1,533	\$ 1,053	\$ (1,818)	\$ 2,334	\$ 1,709	\$ 1,470	\$ 927	\$ (1,892)	\$ 2,214

(a) Represents amounts excluded from Margins.

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(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$11 million and \$32 million for the three and nine months ended September 30, 2016 and \$12 million and \$35 million for the three and nine months ended September 30, 2015.

2016 Outlook

(PPL)

Higher net income is expected in 2016 compared with 2015, primarily attributable to the results of the 2015 spinoff of the Supply segment. Higher Earnings from Ongoing Operations are expected in 2016 compared with 2015, primarily attributable to increases in the Pennsylvania Regulated and Kentucky Regulated segments. The following projections and factors underlying these projections are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Net income is expected to be relatively flat in 2016 compared with 2015. Lower Earnings from Ongoing Operations are projected in 2016 compared with 2015 due to the unfavorable impact of lower GBP exchange rates, higher interest expense and depreciation, partially offset by higher revenues and lower operation and maintenance expense, including pension expense.

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

Higher net income and Earnings from Ongoing Operations are projected in 2016 compared with 2015, primarily driven by electric and gas base rate increases effective July 1, 2015, higher returns on additional environmental capital investments, and lower operation and maintenance expense, partially offset by higher depreciation and higher interest expense.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income and Earnings from Ongoing Operations are projected in 2016 compared with 2015, primarily driven by higher base electricity rates for distribution effective January 1, 2016, and higher transmission earnings from additional capital investments, partially offset by higher depreciation and a benefit received in 2015 from the release of a gross receipts tax reserve.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2016 compared with 2015.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2015 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues	\$ 539	\$ 519	\$ 20	\$ 1,619	\$ 1,625	\$ (6)
Operating Expenses						
Operation						
Energy purchases	129	154	(25)	414	519	(105)
Energy purchases from affiliate	—	—	—	—	14	(14)
Other operation and maintenance	144	162	(18)	431	435	(4)
Depreciation	64	55	9	185	158	27
Taxes, other than income	26	27	(1)	79	87	(8)
Total Operating Expenses	363	398	(35)	1,109	1,213	(104)
Other Income (Expense) - net	4	1	3	12	5	7
Interest Expense	32	32	—	97	96	1
Income Taxes	58	35	23	162	130	32
Net Income	\$ 90	\$ 55	\$ 35	\$ 263	\$ 191	\$ 72

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Distribution Price (a)	\$ 23	\$ 97
Distribution volume	11	(23)
PLR (b)	(21)	(125)
Transmission Formula Rate	12	47
Other	(5)	(2)
Total	\$ 20	\$ (6)

(a) Distribution rate case effective January 1, 2016, resulted in increases of \$41 million and \$121 million for the three and nine months ended September 30, 2016.

(b) Decreases due to lower recoveries of energy purchases as described below.

Energy Purchases

Energy purchases decreased by \$25 million for the three months ended September 30, 2016 compared with 2015 due to lower PLR prices of \$37 million, partially offset by higher PLR volumes of \$14 million.

Energy purchases decreased by \$105 million for the nine months ended September 30, 2016 compared with 2015 due to lower PLR prices of \$90 million, lower PLR volumes of \$11 million and lower capacity volumes of \$4 million.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased by \$14 million for the nine months ended September 30, 2016 compared with 2015 as a result of the June 1, 2015 PPL Energy Supply spinoff.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Corporate service costs	\$ 1	\$ 10
Contractor-related expenses	6	12
Vegetation management	(5)	1
Storm costs	1	7
Payroll-related costs	(7)	(19)
Act 129	(7)	(14)
Universal service programs	—	3
Bad Debts	(5)	(6)
Other	(2)	2
Total	<u>\$ (18)</u>	<u>\$ (4)</u>

Depreciation

Depreciation increased by \$9 million and \$27 million for the three and nine months ended September 30, 2016 compared with 2015, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ 22	\$ 43
Stock-based compensation (a)	—	(7)
Other	1	(4)
Total	<u>\$ 23</u>	<u>\$ 32</u>

(a) During the nine months ended September 30, 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net Income	\$ 90	\$ 55	\$ 263	\$ 191
Special item, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher base electricity rates for distribution effective January 1, 2016, a favorable impact of weather, higher transmission margins from additional capital investments, and lower other operation and maintenance expense, partially offset by higher depreciation.

Earnings increased for the nine month period in 2016 compared with 2015 primarily due to higher base electricity rates for distribution effective January 1, 2016, and higher transmission margins, partially offset by higher depreciation.

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

	Three Months	Nine Months
Pennsylvania Gross Delivery Margins	\$ 52	\$ 126
Other operation and maintenance	11	(3)
Depreciation	(9)	(27)
Taxes, other than income	1	2
Other Income (Expense) - net	3	7
Interest Expense	—	(1)
Income Taxes	(23)	(32)
Net Income	<u>\$ 35</u>	<u>\$ 72</u>

Margins

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

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

	2016 Three Months			2015 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 539	\$ —	\$ 539	\$ 519	\$ —	\$ 519
Operating Expenses						
Energy purchases	129	—	129	154	—	154
Other operation and maintenance	24	120	144	31	131	162
Depreciation	—	64	64	—	55	55
Taxes, other than income	25	1	26	25	2	27
Total Operating Expenses	178	185	363	210	188	398
Total	<u>\$ 361</u>	<u>\$ (185)</u>	<u>\$ 176</u>	<u>\$ 309</u>	<u>\$ (188)</u>	<u>\$ 121</u>

	2016 Nine Months			2015 Nine Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,619	\$ —	\$ 1,619	\$ 1,625	\$ —	\$ 1,625
Operating Expenses						
Energy purchases	414	—	414	519	—	519
Energy purchases from affiliate	—	—	—	14	—	14
Other operation and maintenance	77	354	431	84	351	435
Depreciation	—	185	185	—	158	158
Taxes, other than income	75	4	79	81	6	87
Total Operating Expenses	566	543	1,109	698	515	1,213
Total	<u>\$ 1,053</u>	<u>\$ (543)</u>	<u>\$ 510</u>	<u>\$ 927</u>	<u>\$ (515)</u>	<u>\$ 412</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues	\$ 835	\$ 801	\$ 34	\$ 2,382	\$ 2,414	\$ (32)
Operating Expenses						
Operation						
Fuel	227	228	(1)	607	695	(88)
Energy purchases	24	23	1	118	143	(25)
Other operation and maintenance	197	202	(5)	603	625	(22)
Depreciation	102	97	5	301	286	15
Taxes, other than income	16	14	2	46	43	3
Total Operating Expenses	566	564	2	1,675	1,792	(117)
Other Income (Expense) - net	(3)	(1)	(2)	(9)	(3)	(6)
Interest Expense	50	43	7	147	127	20
Interest Expense with Affiliate	4	—	4	12	1	11
Income Taxes	79	73	6	202	194	8
Net Income	\$ 133	\$ 120	\$ 13	\$ 337	\$ 297	\$ 40

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Base rates	\$ —	\$ 68
Volumes	32	(38)
Fuel and other energy prices (a)	(11)	(85)
ECR	8	30
Other	5	(7)
Total	\$ 34	\$ (32)

(a) The decrease for the nine month period was due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased \$88 million for the nine months ended September 30, 2016 compared with 2015, primarily due to a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased \$25 million for the nine months ended September 30, 2016 compared with 2015 primarily due to a \$14 million decrease in natural gas volumes, driven by milder weather in the first quarter of 2016, and \$13 million of lower natural gas prices.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Coal plant operations and maintenance (a)	\$ 2	\$ (12)
Pension (b)	(2)	(10)
Other	(5)	—
Total	<u>\$ (5)</u>	<u>\$ (22)</u>

(a) The decrease for the nine month period was primarily due to a reduction of costs associated with the 2015 retirement of units at the Cane Run and Green River plants, partially offset by Cane Run 7 operations.

(b) The decrease for the nine month period was primarily due to higher discount rates and deferred amortization of actuarial losses.

Depreciation

Depreciation increased \$15 million for the nine months ended September 30, 2016 compared with 2015 primarily due to additional assets placed into service, net of retirements.

Interest Expense

Interest expense increased \$11 million and \$31 million for the three and nine months ended September 30, 2016 compared with 2015 primarily due to the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced in November 2015.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ 7	\$ 19
Certain valuation allowances (a)	—	(8)
Other	(1)	(3)
Total	<u>\$ 6</u>	<u>\$ 8</u>

(a) The decrease for the nine month period represents a valuation allowance, established in 2015, against tax credits expiring in 2016 and 2017 that are more likely than not to expire before being utilized.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net Income	\$ 133	\$ 120	\$ 337	\$ 297
Special items, gains (losses), after-tax	—	—	—	(8)

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher sales volumes, driven by warmer weather, and lower other operation and maintenance expense, partially offset by higher interest expense.

Excluding special items, earnings increased for the nine month period in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015, lower other operation and maintenance expense and higher returns on additional environmental capital investments, partially offset by higher interest expense and lower sales volumes driven by milder weather in the first quarter of 2016.

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

	Three Months	Nine Months
Margins	\$ 27	\$ 63
Other operation and maintenance	10	26
Depreciation	(2)	(1)
Taxes, other than income	(3)	(3)
Other Income (Expense) - net	(2)	(6)
Interest Expense	(11)	(31)
Income Taxes	(6)	(16)
Special items, gains (losses), after-tax	—	8
Net Income	<u>\$ 13</u>	<u>\$ 40</u>

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

Margins

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

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

	2016 Three Months			2015 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 835	\$ —	\$ 835	\$ 801	\$ —	\$ 801
Operating Expenses						
Fuel	227	—	227	228	—	228
Energy purchases	24	—	24	23	—	23
Other operation and maintenance	33	164	197	28	174	202
Depreciation	14	88	102	11	86	97
Taxes, other than income	—	16	16	1	13	14
Total Operating Expenses	298	268	566	291	273	564
Total	<u>\$ 537</u>	<u>\$ (268)</u>	<u>\$ 269</u>	<u>\$ 510</u>	<u>\$ (273)</u>	<u>\$ 237</u>

	2016 Nine Months			2015 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,382	\$ —	\$ 2,382	\$ 2,414	\$ —	\$ 2,414
Operating Expenses						
Fuel	607	—	607	695	—	695
Energy purchases	118	—	118	143	—	143
Other operation and maintenance	81	522	603	77	548	625
Depreciation	40	261	301	26	260	286
Taxes, other than income	3	43	46	3	40	43
Total Operating Expenses	849	826	1,675	944	848	1,792
Total	<u>\$ 1,533</u>	<u>\$ (826)</u>	<u>\$ 707</u>	<u>\$ 1,470</u>	<u>\$ (848)</u>	<u>\$ 622</u>

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

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

Statement of Income Analysis

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues						
Retail and wholesale	\$ 366	\$ 349	\$ 17	\$ 1,058	\$ 1,089	\$ (31)
Electric revenue from affiliate	2	2	—	19	32	(13)
Total Operating Revenues	368	351	17	1,077	1,121	(44)
Operating Expenses						
Operation						
Fuel	86	82	4	233	267	(34)
Energy purchases	19	18	1	104	129	(25)
Energy purchases from affiliate	5	9	(4)	10	17	(7)
Other operation and maintenance	85	87	(2)	264	286	(22)
Depreciation	43	40	3	126	122	4
Taxes, other than income	9	7	2	24	21	3
Total Operating Expenses	247	243	4	761	842	(81)
Other Income (Expense) - net	(1)	(1)	—	(6)	(3)	(3)
Interest Expense	18	13	5	53	39	14
Income Taxes	39	36	3	98	91	7
Net Income	\$ 63	\$ 58	\$ 5	\$ 159	\$ 146	\$ 13

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Base rates	\$ —	\$ 4
Volumes	15	(30)
Fuel and other energy prices (a)	(4)	(36)
ECR	5	21
Other	1	(3)
Total	\$ 17	\$ (44)

- (a) The decrease for the three and nine month periods was due to lower recoveries of fuel and energy purchases due to lower commodity costs, as described below.

Fuel

Fuel increased \$4 million for the three months ended September 30, 2016 compared with 2015, due to an \$11 million increase in volumes, driven by warmer weather, partially offset by a \$7 million decrease in commodity costs, as a result of a decrease in market prices for coal and natural gas.

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Fuel decreased \$34 million for the nine months ended September 30, 2016 compared with 2015, due to a \$25 million decrease in commodity costs, as a result of a decrease in market prices for coal and natural gas, and a \$9 million decrease in volumes, driven by milder weather in the first quarter of 2016.

Energy purchases

Energy purchases decreased \$25 million for the nine months ended September 30, 2016 compared with 2015 primarily due to a \$14 million decrease in natural gas volumes, driven by milder weather during the first quarter of 2016, and \$13 million of lower natural gas prices.

Energy purchases from affiliate

Energy purchases from affiliate decreased \$4 million for the three months ended September 30, 2016 compared with 2015 primarily due to decreased generation available from KU.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2016 compared with 2015 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Coal plant operations and maintenance (a)	\$ (1)	\$ (13)
Pension (b)	—	(6)
Other	(1)	(3)
Total	<u>\$ (2)</u>	<u>\$ (22)</u>

(a) The decrease for the nine month period was primarily due to a reduction of costs associated with the 2015 retirement of units at the Cane Run plant, partially offset by Cane Run 7 operations.

(b) The decrease for the nine month period was primarily due to higher discount rates and deferred amortization of actuarial losses.

Interest Expense

Interest expense increased \$5 million and \$14 million for the three and nine months ended September 30, 2016 compared with 2015 primarily due to the September 2015 issuance of \$300 million of incremental First Mortgage Bonds and higher interest rates on the September 2015 issuance of \$250 million of First Mortgage Bonds used to retire the same amount of First Mortgage Bonds in November 2015.

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net Income	\$ 63	\$ 58	\$ 159	\$ 146
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher sales volumes, driven by warmer weather, and lower other operation and maintenance expense, partially offset by higher interest expense.

Earnings increased for the nine month period in 2016 compared with 2015 primarily due to higher returns on additional environmental capital investments and lower other operation and maintenance expense, partially offset by higher interest expense.

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

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	Three Months	Nine Months
Margins	\$ 12	\$ 15
Other operation and maintenance	4	21
Depreciation	—	4
Taxes, other than income	(3)	(3)
Other Income (Expense) - net	—	(3)
Interest Expense	(5)	(14)
Income Taxes	(3)	(7)
Net Income	<u>\$ 5</u>	<u>\$ 13</u>

Margins

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

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

	2016 Three Months			2015 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 368	\$ —	\$ 368	\$ 351	\$ —	\$ 351
Operating Expenses						
Fuel	86	—	86	82	—	82
Energy purchases, including affiliate	24	—	24	27	—	27
Other operation and maintenance	13	72	85	11	76	87
Depreciation	8	35	43	5	35	40
Taxes, other than income	—	9	9	1	6	7
Total Operating Expenses	131	116	247	126	117	243
Total	<u>\$ 237</u>	<u>\$ (116)</u>	<u>\$ 121</u>	<u>\$ 225</u>	<u>\$ (117)</u>	<u>\$ 108</u>

	2016 Nine Months			2015 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	1,077	\$ —	\$ 1,077	\$ 1,121	\$ —	\$ 1,121
Operating Expenses						
Fuel	233	—	233	267	—	267
Energy purchases, including affiliate	114	—	114	146	—	146
Other operation and maintenance	32	232	264	33	253	286
Depreciation	20	106	126	12	110	122
Taxes, other than income	2	22	24	2	19	21
Total Operating Expenses	401	360	761	460	382	842
Total	<u>676</u>	<u>\$ (360)</u>	<u>\$ 316</u>	<u>\$ 661</u>	<u>\$ (382)</u>	<u>\$ 279</u>

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

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	Three Months			Nine Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues						
Retail and wholesale	\$ 469	\$ 452	\$ 17	\$ 1,324	\$ 1,325	\$ (1)
Electric revenue from affiliate	5	9	(4)	10	17	(7)
Total Operating Revenues	474	461	13	1,334	1,342	(8)
Operating Expenses						
Operation						
Fuel	141	146	(5)	374	428	(54)
Energy purchases	5	5	—	14	14	—
Energy purchases from affiliate	2	2	—	19	32	(13)
Other operation and maintenance	107	108	(1)	320	321	(1)
Depreciation	59	57	2	175	164	11
Taxes, other than income	7	7	—	22	22	—
Total Operating Expenses	321	325	(4)	924	981	(57)
Other Income (Expense) - net	(3)	—	(3)	(4)	1	(5)
Interest Expense	24	20	4	71	58	13
Income Taxes	48	44	4	128	115	13
Net Income	\$ 78	\$ 72	\$ 6	\$ 207	\$ 189	\$ 18

Operating Revenue

The increase (decrease) in operating revenue for the periods ended September 30, 2016 compared with 2015 was due to:

	Three Months	Nine Months
Base rates	\$ —	\$ 64
Volumes	13	(27)
Fuel and other energy prices (a)	(6)	(50)
ECR	3	8
Other	3	(3)
Total	\$ 13	\$ (8)

(a) The decrease for the three and nine month periods was due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased \$5 million for the three months ended September 30, 2016 compared with 2015, due to a decrease in market prices for coal and natural gas.

Fuel decreased \$54 million for the nine months ended September 30, 2016 compared with 2015, due to a \$49 million decrease in commodity costs, as a result of a decrease in market prices for coal and natural gas, and a \$5 million decrease in volumes, driven by milder weather during the first quarter of 2016.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net Income	\$ 78	\$ 72	\$ 207	\$ 189
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher sales volumes, driven by warmer weather, and lower other operation and maintenance expense, partially offset by higher interest expense.

Earnings increased for the nine month period in 2016 compared with 2015 primarily due to higher base electricity rates, effective July 1, 2015 and lower other operation and maintenance expense, partially offset by higher interest expense and lower sales volumes, driven by milder weather during the first quarter of 2016.

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

	Three Months	Nine Months
Margins	\$ 15	\$ 48
Other operation and maintenance	4	6
Depreciation	(2)	(5)
Other Income (Expense) - net	(3)	(5)
Interest Expense	(4)	(13)
Income Taxes	(4)	(13)
Net Income	\$ 6	\$ 18

Margins

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

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

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	2016 Three Months			2015 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 474	\$ —	\$ 474	\$ 461	\$ —	\$ 461
Operating Expenses						
Fuel	141	—	141	146	—	146
Energy purchases, including affiliate	7	—	7	7	—	7
Other operation and maintenance	20	87	107	17	91	108
Depreciation	6	53	59	6	51	57
Taxes, other than income	—	7	7	—	7	7
Total Operating Expenses	174	147	321	176	149	325
Total	\$ 300	\$ (147)	\$ 153	\$ 285	\$ (149)	\$ 136

	2016 Nine Months			2015 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,334	\$ —	\$ 1,334	\$ 1,342	\$ —	\$ 1,342
Operating Expenses						
Fuel	374	—	374	428	—	428
Energy purchases, including affiliate	33	—	33	46	—	46
Other operation and maintenance	49	271	320	44	277	321
Depreciation	20	155	175	14	150	164
Taxes, other than income	1	21	22	1	21	22
Total Operating Expenses	477	447	924	533	448	981
Total	\$ 857	\$ (447)	\$ 410	\$ 809	\$ (448)	\$ 361

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Financial Condition

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

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
September 30, 2016					
Cash and cash equivalents	\$ 416	\$ 36	\$ 11	\$ 4	\$ 7
Short-term debt	636	130	135	128	7
Notes payable with affiliate		—	138	—	—
December 31, 2015					
Cash and cash equivalents	\$ 836	\$ 47	\$ 30	\$ 19	\$ 11
Short-term debt	916	—	265	142	48
Notes payable with affiliate		—	54	—	—

(a) At September 30, 2016, \$8 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2015 Form 10-K for additional information on undistributed earnings of WPD.

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(PPL)

The Statements of Cash Flows separately report the cash flows of the discontinued operations in 2015. The "Operating Activities", "Investing Activities" and "Financing Activities" sections below included only the cash flows of continuing operations.

(All Registrants)

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

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2016					
Operating activities	\$ 2,230	\$ 595	\$ 816	\$ 383	\$ 469
Investing activities	(2,066)	(740)	(599)	(343)	(254)
Financing activities	(558)	134	(236)	(55)	(219)
2015					
Operating activities	\$ 1,688	\$ 373	\$ 895	\$ 469	\$ 510
Investing activities	(2,463)	(764)	(921)	(519)	(400)
Financing activities	231	203	460	220	154
Change - Cash Provided (Used)					
Operating activities	\$ 542	\$ 222	\$ (79)	\$ (86)	\$ (41)
Investing activities	397	24	322	176	146
Financing activities	(789)	(69)	(696)	(275)	(373)

Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2016 compared with 2015 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ 239	\$ 72	\$ 40	\$ 13	\$ 18
Non-cash components	146	42	(7)	—	(7)
Working capital	102	74	(168)	(99)	(94)
Defined benefit plan funding	51	33	(16)	(20)	1
Other operating activities	4	1	72	20	41
Total	<u>\$ 542</u>	<u>\$ 222</u>	<u>\$ (79)</u>	<u>\$ (86)</u>	<u>\$ (41)</u>

(PPL)

PPL's cash provided by operating activities from continuing operations in 2016 increased \$542 million in 2016 compared with 2015.

- Income from continuing operations increased by \$239 million between the periods. This included an additional \$146 million of net non-cash charges, including \$124 million of lower unrealized gains on hedging activities primarily due to the settlement of hedges in the third quarter of 2016 and an increase in deferred income taxes, partially offset by defined benefit plan income (primarily due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate for the U.K. pension plans).
- The \$102 million increase in cash from changes in working capital was primarily due to an increase in taxes payable (primarily due to an increase in current income tax expense in 2016) and an increase in accounts payable (due to timing of payments), partially offset by an increase in unbilled revenues (due to lower volumes as a result of unfavorable weather as compared to 2015) and a net increase in current regulatory assets and regulatory liabilities (due to the timing of rate recovery mechanisms).

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- Defined benefit plan funding was \$51 million lower in 2016.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2016 increased \$222 million in 2016 compared with 2015.

- The increase in non-cash components of \$42 million in 2016 compared with 2015 was primarily due to an increase in depreciation and deferred income tax expense.
- The \$74 million increase in cash from changes in working capital was primarily due to an increase in accounts payable (primarily due to timing of payments) and a decrease in prepayments (primarily due to higher tax prepayments in 2015) partially offset by a net increase in current regulatory assets and regulatory liabilities (due to the timing of rate recovery mechanisms).
- Defined benefit plan funding was \$33 million lower in 2016.

(LKE)

LKE's cash provided by operating activities in 2016 decreased \$79 million compared with 2015.

- The decrease in cash from working capital was driven primarily by lower tax payments received from PPL for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to lower weather volatility during the measurement periods in 2016, and coal and natural gas inventories due to milder weather in the first quarter of 2016, partially offset by lower payments on accounts payable due to lower fuel purchases.
- The increase in cash from other operating activities was driven primarily by a decrease in cash outflows for the settlement of interest rate swaps. LG&E and KU settled interest rate swaps in the third quarter of 2015 which did not occur in 2016.

(LG&E)

LG&E's cash provided by operating activities in 2016 decreased \$86 million compared with 2015.

- The decrease in cash from working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to lower weather volatility during the measurement periods in 2016, coal and natural gas inventories due to milder weather in the first quarter of 2016, and accounts receivable from affiliates due to lower intercompany settlements associated with capital expenditures, partially offset by lower payments on accounts payable due to lower fuel purchases.
- The increase in cash from other operating activities was driven primarily by a decrease in cash outflows for the settlement of interest rate swaps. LG&E settled interest rate swaps in the third quarter of 2015 which did not occur in 2016.

(KU)

KU's cash provided by operating activities in 2016 decreased \$41 million compared with 2015.

- The decrease in cash from working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to lower weather volatility during the measurement periods in 2016, and coal inventory due to milder weather in the first quarter of 2016, partially offset by accounts payable to affiliates due to lower intercompany settlements associated with capital expenditures and lower payments on accounts payable due to lower fuel purchases.
- The increase in cash from other operating activities was driven primarily by a decrease in cash outflows for the settlement of interest rate swaps. KU settled interest rate swaps in the third quarter of 2015 which did not occur in 2016.

[Table of Contents](#)**Investing Activities***(All Registrants)**Expenditures for Property, Plant and Equipment*

Investment in PP&E is the primary investing activity of the registrants. The change in expenditures for PP&E for the nine months ended September 30, 2016 compared with 2015 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease	\$ 487	\$ 19	\$ 328	\$ 176	\$ 152

For PPL, the decrease in expenditures was due to lower project expenditures at WPD, PPL Electric Utilities, LG&E, and KU. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability associated with the end of the DPCR5 price control period and changes in foreign currency exchange rates. The decrease in expenditures for PPL Electric was primarily due to the completion of the Susquehanna-Roseland transmission project and the completion of the Northeast Pocono reliability project. The decrease in expenditures for LG&E was primarily driven by the completion of the environmental air projects at LG&E's Mill Creek plant. The decrease in expenditures for KU was primarily driven by the completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant.

Financing Activities*(All Registrants)*

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2016 compared with 2015 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ (801)	\$ —	\$ (1,050)	\$ (550)	\$ (500)
Settlement of cross-currency swaps	46	—	—	—	—
Stock issuances/redemptions, net	(12)	—	—	—	—
Dividends	(22)	(53)	—	(6)	(91)
Capital contributions/distributions, net	—	(75)	(85)	27	20
Change in short-term debt, net	3	62	370	250	195
Notes payable with affiliate	—	—	63	—	—
Other financing activities	(3)	(3)	6	4	3
Total	\$ (789)	\$ (69)	\$ (696)	\$ (275)	\$ (373)

See Note 7 to the Financial Statements in this Form 10-Q for information on 2016 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2015 Form 10-K for information on 2015 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At September 30, 2016, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

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External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,150	\$ —	\$ 17	\$ 1,133
PPL Electric Credit Facility	400	—	131	269
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	128	372
KU Credit Facilities	598	—	205	393
Total LKE	1,173	—	333	840
Total U.S. Credit Facilities (a)	\$ 2,723	\$ —	\$ 481	\$ 2,242
Total U.K. Credit Facilities (b)	£ 1,055	£ 284	£ —	£ 771

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 11%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.
- (b) The amounts borrowed at September 30, 2016 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$171 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £153 million as of the date borrowed. At September 30, 2016, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1 billion.

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

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

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 138	\$ —	\$ 87
LG&E Money Pool (a)	500	—	128	372
KU Money Pool (a)	500	—	7	493

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

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

Commercial Paper *(All Registrants)*

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at September 30, 2016:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ —	\$ 1,000
PPL Electric	400	130	270
LG&E	350	128	222
KU	350	7	343
Total LKE	700	135	565
Total PPL	\$ 2,100	\$ 265	\$ 1,835

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Long-term Debt

(PPL)

In May 2016, PPL Capital Funding issued \$650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of \$645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new ten-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire \$460 million principal amount of its 3.90% Senior Notes upon maturity.

In October 2016, WPD (East Midlands) issued an additional £40 million of its 2.671% Index-linked Senior Notes due 2043. WPD (East Midlands) received proceeds of £83 million, which equated to \$101 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The proceeds will be used for general corporate purposes.

(PPL and PPL Electric)

In March 2016, the LCIDA issued \$116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and \$108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at PPL Electric's option. The proceeds of the bonds were used to redeem \$116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and \$108 million of 4.75% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued \$224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

(PPL, LKE and LG&E)

In September 2016, the County of Trimble, Kentucky issued \$125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) due 2044 on behalf of LG&E. The bonds were issued with a floating interest rate that initially will reset weekly. The method of determining the interest rate on the bonds may be converted from time to time at LG&E's option. The proceeds of the bonds were used to redeem \$83 million of Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2030 and \$42 million of Pollution Control Revenue Refunding Bonds, 2002 Series A (Louisville Gas and Electric Company Project) due 2032 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

(PPL, LKE and KU)

In August 2016, the County of Carroll, Kentucky issued \$96 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) due 2042 on behalf of KU. The bonds were issued bearing interest at an initial term rate of 1.05% through their mandatory purchase date of September 1, 2019. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at KU's option. The proceeds of the bonds were used to redeem \$96 million of Pollution Control Revenue Refunding Bonds, 2002 Series C (Kentucky Utilities Company Project) due 2032 previously issued by the County of Carroll, Kentucky on behalf of KU.

(PPL)

ATM Program

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

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	Three Months		Nine Months	
	2016	2015	2016	2015
Number of shares (in thousands)	710	436	710	858
Average share price	\$ 35.23	\$ 32.95	\$ 35.23	\$ 33.33
Net Proceeds	\$ 25	\$ 14	\$ 25	\$ 28

Common Stock Dividends

In August 2016, PPL declared a quarterly common stock dividend, payable October 3, 2016, of 38 cents per share (equivalent to \$1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. In the second quarter of 2016, PPL decreased its projected capital spending for the period 2016 through 2020 related to distribution facilities by approximately \$1.1 billion from the \$9.5 billion projection previously disclosed in PPL's 2015 Form 10-K. The decreased projected capital spending results from a change in the forecasted GBP to U.S. dollar exchange rate from \$1.60 to \$1.30 for WPD expenditures that decreased each year estimate by approximately \$220 million.

Contractual Obligations

In 2016, PPL decreased its estimated contractual cash obligations by approximately \$2.0 billion from the \$39.1 billion estimate previously disclosed in PPL's 2015 Form 10-K. The decrease was primarily a result of the change in the GBP to U.S. dollar exchange rate from \$1.50 to \$1.30 as of September 30, 2016 for WPD's obligations. The decreases in PPL's estimated contractual cash obligations by year were as follows.

	Total	2016	2017 - 2018	2019 - 2020	After 2020
Total Change in Contractual Cash Obligations	\$ (2,003)	\$ (36)	\$ (100)	\$ (121)	\$ (1,746)

Rating Agency Actions

(All Registrants)

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

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

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2016:

(PPL)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Capital Funding's \$1.0 billion commercial paper program.

In May 2016, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$650 million 3.10% Senior Notes due 2026.

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In June 2016, S&P assigned a long-term issuer rating of A- and a short-term issuer rating of A-2 to PPL Capital Funding.

(PPL Electric)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$400 million commercial paper program.

In February 2016, Moody's and S&P assigned ratings of A1 and A to LCIDA's \$116 million 0.90% Pollution Control Revenue Refunding Bonds due 2029 and \$108 million 0.90% Pollution Control Revenue Refunding Bonds due 2027, issued on behalf of PPL Electric.

(LG&E)

In September 2016, Moody's and S&P assigned ratings of A1 and A to LG&E's Trimble Country 2016 Series A \$125 million Pollution Control Revenue Refunding Bonds due 2044.

(KU)

In August 2016, Moody's and S&P assigned ratings of A1 and A to KU's Carroll County 2016 Series A \$96 million Pollution Control Revenue Refunding Bonds due 2042.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at September 30, 2016.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2015 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest

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rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

The following interest rate hedges were outstanding at September 30, 2016.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	\$ 802	\$ 155	\$ (96)	2028
Economic hedges				
Interest rate swaps (d)	179	(54)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	179	(54)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	179	(54)	(2)	2033

(a) Includes accrued interest, if applicable.

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

(c) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at September 30, 2016 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at September 30, 2016 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 543
PPL Electric	136
LKE	175
LG&E	65
KU	98

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at September 30, 2016.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b)	£ 1,791	\$ 96	\$ (214)	2018

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

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

(All Registrants)

Commodity Price Risk

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

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

Volumetric Risk

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

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RII0 - ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2015 Form 10-K for additional information on revenue recognition under RII0 - ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2015 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$840 million for the nine months ended September 30, 2016, which primarily reflected a \$1.6 billion decrease to PP&E and \$375 million decrease to goodwill partially offset by a \$995 million decrease to long-term debt and a \$160 million decrease to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$101 million for the nine months ended September 30, 2015, which primarily reflected a \$209 million decrease to PP&E and \$54 million decrease to goodwill partially offset by a \$131 million decrease to long-term debt and a \$31 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

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

Environmental Matters *(All Registrants)*

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

See Note 10 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines,
- Mercury and Air Toxics Standards,
- National Ambient Air Quality Standards, and
- Superfund and Other Remediation.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2015 Form 10-K for additional information on environmental matters.

New Accounting Guidance *(All Registrants)*

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2015 Form 10-K for a discussion of each critical accounting policy.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2016, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

- "Item 3. Legal Proceedings" in each Registrant's 2015 Form 10-K; and
- Notes 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2015 Form 10-K and Form 10-Q for the period ending June 30, 2016 except the following:

(PPL)

Risks related to our U.K. segment

PPL's earnings may be adversely affected as a result of the June 23, 2016 referendum in the U.K. to withdraw from the European Union.

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union, including whether formal withdrawal will occur and the nature and duration of negotiations between the U.K. and European Union as to the terms of any withdrawal. PPL cannot predict the impact, either short-term or long-term, on foreign exchange rates or PPL's long-term financial condition that may be experienced as a result of any actions that may be taken by the U.K. government to withdraw from the European Union, although such impacts could be significant.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

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

- 4(a) - Loan Agreement dated as of August 1, 2016 between Kentucky Utilities Company and the County of Carroll, Kentucky (Exhibit 4(a) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(b) - Supplemental Indenture No. 5, dated as of August 1, 2016, of Kentucky Utilities Company to The Bank of New York Mellon, as Trustee (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(c) - Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 15, 2016)
- 4(d) - Supplemental Indenture No. 5, dated as of September 1, 2016, of Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 15, 2016)
- [*10\(a\)](#) - £50,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of October 11, 2016
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2016, filed by the following officers for the following companies:

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

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Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2016, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
 - [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
 - [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
 - [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
 - [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer
-
- 101.INS - XBRL Instance Document
 - 101.SCH - XBRL Taxonomy Extension Schema
 - 101.CAL - XBRL Taxonomy Extension Calculation Linkbase
 - 101.DEF - XBRL Taxonomy Extension Definition Linkbase
 - 101.LAB - XBRL Taxonomy Extension Label Linkbase
 - 101.PRE - XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

PPL Corporation

(Registrant)

Date: November 1, 2016

/s/ Stephen K. Breininger

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

PPL Electric Utilities Corporation

(Registrant)

Date: November 1, 2016

/s/ Marlene C. Beers

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

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: November 1, 2016

/s/ Kent W. Blake

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

Handelsbanken

Bristol Queen Square

The Directors
Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Date: 10th October 2016

Dear Sirs

In accordance with arrangements recently agreed between us, we hereby set out in this letter (the "**Facility Letter**") the terms and conditions upon which we, Svenska Handelsbanken AB (publ) (the "**Bank**"), are prepared to make available an uncommitted money market facility (the "**Facility**") to you, Western Power Distribution (South West) plc, Company Number 2366894 (the "**Borrower**")

This Facility Letter is open for acceptance within 30 days of the date hereof or such later date as the Bank shall agree after which it shall expire.

This Facility Letter supersedes all prior agreements, arrangements or correspondence between the Bank and the Borrower in relation to the Facility.

The principal terms on which the Facility is made available are set out in Clause 1.1, subject to the terms and conditions contained in the remainder of this Facility Letter.

1.1 Outline Terms

- **Amount & Type of Facility:** £50,000,000 (fifty million pounds sterling) money market facility.
 - Arrangement Fee £15,000 payable on signing this Facility Letter.
 - Annual Fee £7,500 payable yearly in advance with effect from 1st September 2017
 - Breakage Fee £300 payable on the date a Drawing or any part thereof is repaid or prepaid other than on the relevant Maturity Date.
 - Break Costs (if applicable).

Svenska Handelsbanken AB (publ)
66 Queens Square
Bristol
BS1 4JP

Telephone 0117 302 0080
Fax 0117 302 0077
www.handelsbanken.co.uk/bristolqueensquare
SWIFT HANDGB22

Handelsbanken is the trading name of Svenska Handelsbanken AB (publ). Registered Office: Svenska Handelsbanken AB (publ), 3 Thomas More Square, London, E1W 1WY. Registered in England and Wales No, BR 000589. Incorporated in Sweden with limited liability. Registered in Sweden No, 502007-7862. Head Office in Stockholm. Authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

- **Review Date:** On or around 31st August annually.
- **Specified Purpose** General business purposes.

1.2 Definitions and Interpretation

Unless defined elsewhere the definitions which shall apply to the Facility Letter are contained in Schedule 2.

2 The Facility

The Borrower may only use the Facility for the Specified Purpose and furthermore undertakes not to use the Facility for any purpose or in any manner that would result in a breach by it, or any other person, of any provision of the Bribery Act 2010.

3 Conditions Precedent

- 3.1 The Facility shall be available for use by the Borrower only when the Bank (i) shall have received, to its satisfaction as to their form and substance, the documents and evidence set out in Schedule 1 and (ii) is satisfied that the other conditions detailed in Schedule 1 have been satisfied.
- 3.2 The Conditions Precedent set out in Schedule 1 are for the sole benefit of the Bank, and the Bank may in its sole and absolute discretion make the Facility, or a part thereof, available notwithstanding that one or more of such conditions have not been fulfilled on terms that such condition or conditions shall be fulfilled within such period or periods thereafter as the Bank shall determine unless the Bank shall otherwise agree to waive such condition or conditions in its sole and absolute discretion.

4 Utilisation, Availability and Termination

- 4.1 Utilisation of the Facility ("**Facility Utilisation**") will be calculated as the aggregate value of outstanding Drawings.
- 4.2 Facility Utilisation at any time shall not exceed the Limit and the Bank is not obliged to allow or continue to allow any utilisation in excess of the Limit.
- 4.3 The Facility is uncommitted and shall remain available to the Borrower until further notice but shall be subject to cancellation at any time by either the Bank or the Borrower giving written notice to the other. In the event of such cancellation no further Drawings shall be made available and the Bank will be entitled to require the Borrower to immediately repay all Drawings in accordance with the provisions of Clause 5.5.
- 4.4 The Bank shall review the Facility on each Review Date and may contact you to discuss your future requirements. Whenever we review the Facility, we may charge you a renewal fee.
- 4.5 All sums outstanding under the Facility together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand at all times.

5 Drawings

- 5.1 Borrowings by way of drawings shall be permitted at the Bank's discretion (together the "**Drawings**" each a "**Drawing**").
- 5.2 Each Drawing shall be for an amount, a period and at an interest rate, all to be mutually agreed at the time of each such Drawing, such period to expire no later than the next Quarter Day unless otherwise agreed by the Bank.
- 5.3 Interest on Drawings shall be payable by the Borrower in full in immediately available funds, on the relevant Maturity Date and on any date that a Drawing is renewed for a further period pursuant to Clause 5.4.
- 5.4 Each Drawing shall be repaid in full by the Borrower on the relevant Maturity Date unless the Bank, in its sole discretion, shall agree to renew any such Drawing for a further period in which case the Maturity Date for such Drawing shall be extended accordingly.
- 5.5 Notwithstanding any other term of this Facility Letter each Drawing together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand and in the event that the Facility is cancelled or demand is made by the Bank, the Bank shall be entitled at the cost of the Borrower to break any interest period that may be applicable to a Drawing and the Borrower shall pay to the Bank the Breakage Fee and all Break Costs arising as a result thereof together with accrued interest. In the event that the Bank shall exercise such right all Drawings outstanding shall thereafter be fixed for such interest periods as shall be determined by the Bank in its sole and absolute discretion.
- 5.6 If there is a repayment, prepayment or recovery of all or any part of a Drawing other than on the relevant Maturity Date, then the Borrower will pay to the Bank on demand an amount equal to the Break Costs together with the Breakage Fee and the Borrower indemnifies the Bank against any other costs, liabilities or expenses incurred by the Bank in connection with that early repayment, prepayment or recovery.
- 5.7 Any notice of prepayment under this Facility Letter shall be irrevocable and the provisions of this Clause 5 shall apply to any prepayment.

5.8 If the prepayment sum is received by the Bank after 10 am then the Bank may treat such prepayment as if it had been received on the next Business Day. Any prepayment must be accompanied by any Breakage Fee and all Break Costs arising as a result thereof together with accrued interest.

6 **Fees**

6.1 In consideration of the Bank making the Facility available hereunder the Borrower shall pay to the Bank, the Bank's Fees which if not previously paid shall be deducted from any Drawing made hereunder. Any fees as set out in Clause 1.1 not due on first utilisation shall be debited to the Borrower's account and be payable in advance at the time or times and in the manner set out in Clause 1.1.

6.2 In the event that the level of administration undertaken by the Bank in connection with the operation and monitoring of the Facility shall in the opinion of the Bank have increased or be likely to increase from that envisaged by the Bank when the Facility was originally agreed then the Bank shall have the right to charge the Borrower an Administration Fee.

7 **Increased Costs and Default Interest**

7.1 The Borrower shall, within three Business Days of a demand by the Bank, pay the Bank the amount of any Increased Costs incurred by the Bank as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law, regulation or directive (whether or not having the force of law) or (ii) compliance with any law, regulation or directive (whether or not having the force of law) made after the date of this Facility Letter.

7.2 In this Facility Letter "**Increased Costs**" means:

7.2.1 a reduction in the rate of return from the Facility or on the Bank's overall capital;

7.2.2 an additional or increased cost; or

7.2.3 a reduction of any amount due and payable under this Facility Letter,

which is incurred or suffered by the Bank to the extent that it is attributable to the Bank having entered into this Facility Letter or funding or performing its obligations under this Facility Letter.

7.3 The Bank prior to making a claim pursuant to Clause 7.1 above shall notify the Borrower of the event giving rise to the claim and shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

7.4 If the Borrower shall fail to pay any sum due hereunder or under the judgement of any court in connection herewith on the due date therefor, then as a separate obligation the Borrower shall pay to the Bank interest at the Default Rate on any such sum due to the Bank up to the date on which such sum is repaid and any other amounts outstanding under this Facility Letter have been paid in full. Interest shall be payable at the rate both before and after demand, court decree or judgment on such dates advised by the Bank to the Borrower any such interest which is not paid when due shall be added to the overdue sum and itself bear interest accordingly.

7.5 The Bank's certificate as to the amounts due pursuant to this Clause 7 shall be final and conclusive, save for manifest error.

8 **Financial Information**

The Borrower shall forthwith provide to the Bank such financial information as the Bank may request from time to time including, but not limited to the Financial Statements of the Borrower within 180 days of the end of each financial year.

9 **Payments, Calculations and Tax Indemnity**

9.1 All interest shall accrue from day to day and be calculated on the basis of the actual number of days elapsed within a year of 365 days.

9.2 All sums payable by the Borrower to the Bank shall be paid without deduction for or on account of any set-off or counter-claim and free and clear of any deduction or withholding of any nature (including taxation) unless such a deduction or withholding is required by law.

- 9.3 If any amount is required by law to be deducted or withheld from any sum payable hereunder then the Borrower shall pay such an additional amount as will ensure that, after the making of such deduction or withholding, the Bank shall receive a net sum equal to the sums which the Bank would have received had no such deduction or withholding been required to be made.
- 9.4 The Borrower shall (within three Business Days of demand by the Bank) pay to the Bank an amount equal to the loss, liability or cost which the Bank determines will be or has been (directly or indirectly) suffered for or on account of Tax by the Bank in respect of the Facility Letter.
- 9.5 Clause 9.4 above shall not apply:
- 9.5.1 with respect to any Tax assessed on the Bank under the law of the jurisdiction in which the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes, if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Bank; or
- 9.5.2 to the extent a loss, liability or cost is compensated for by an increased payment under Clause 9.3.
- 9.6 If the Bank makes (or intends to make) a claim under Clause 9.4 above, it shall notify the Borrower as soon as is reasonably practicable of the event which has caused (or will cause) that claim, however, the Bank's entitlement to exercise its rights under Clause 9.4 above is not conditional on such notification being made in accordance with this Clause 9.6.
- 9.7 For the purposes of Clauses 9.4 and 9.5:
- "Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

10 **Security**

The Facility will be secured by any security which the Bank may in the future obtain.

11 **Set-Off**

- 11.1 In addition to any other rights to which it may be entitled the Bank may retain, set off or appropriate any credit balances in name of the Borrower (whether current or not yet due) against the Borrower's obligations to the Bank under this Facility Letter. The Bank may exercise any of these rights without prior notice both before and after demand and in so doing may convert to sterling at the prevailing market rate of exchange any balance which is in a currency other than sterling.
- 11.2 Nothing expressed or implied in this Facility Letter or any other document in connection herewith shall be regarded as in any way negating or affecting any right which the Bank may have under applicable law to apply any credit balances to which the Borrower is entitled on any account of the Borrower in or towards satisfaction of any sum due from the Borrower hereunder.

12 **Severance**

If at any time any one or more of the provisions of this Facility Letter is or becomes invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not thereby be affected, reduced or impaired in any way.

13 **Remedies, Waivers, Amendments and Consents**

- 13.1 No failure on the part of the Bank to exercise, and no delay on its part in exercising, any right or remedy under this Facility Letter will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Facility Letter are cumulative and not exclusive of any rights or remedies provided by law or otherwise.
- 13.2 Save to the extent expressly provided to the contrary in this Facility Letter a person who is not a party to this Facility Letter may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

14 **Assignment and Transferability**

- 14.1 The Borrower may not assign, transfer or otherwise dispose of all or any part of its rights, benefits or obligations under this Facility Letter.

14.2 Subject to clause 14.3 below, the Bank may, with the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time and its own cost assign, novate or transfer all or any part of its rights, benefits and obligations under this Facility Letter or grant participations therein to any one or more banks or financial institutions and the Borrower and any other party to this Facility Letter hereby agree to execute any documents required to enable the Bank so to do (provided that the Borrower and any such other party shall neither be required thereby to pay any greater amount to satisfy its obligations hereunder nor be responsible for any legal or statutory costs or duties arising therefrom) and the Borrower and any other party to this Facility Letter further agrees that the Bank may disclose any information to any such bank or financial institution for said purpose.

14.3 The consent of the Borrower will be deemed to have been given if:

14.3.1 the transfer is to an Affiliate of the Bank;

14.3.2 a breach of the Borrower's obligations has occurred and is continuing; or

14.3.3 within 10 Business Days of receipt by the Borrower of a written application for consent, it has not been expressly refused, provided, in each case, that at the time of the proposed transfer no deduction or withholding would be required by law in respect of any payment to the transferee at such time to the extent that no deduction or withholding would have been required in respect of a payment to the Bank.

15 **Costs and Expenses**

15.1 The Borrower agrees that the costs and expenses, including legal fees, disbursements registration fees and value added tax thereon, incurred by the Bank in connection with the preparation, negotiation, execution and registration of this Facility Letter, and any other documents required in connection with the Facility shall be for the Borrower's account and the Borrower hereby indemnifies the Bank in respect of payment thereof.

15.2 The Borrower further undertakes to reimburse and indemnify the Bank for any and all costs, interest, charges and expenses incurred by the Bank, as well after as before judgement, in connection with preserving, enforcing or seeking to preserve or enforce its rights in respect of this Facility Letter or any amendment thereto, or in connection with the granting of any approvals or consents hereunder.

16 **Notices**

16.1 Each notice or other communication to be given under this Facility Letter shall be given in writing in English and, unless otherwise provided, shall be made by hand, fax or letter. For the avoidance of doubt, notices shall not be validly served by e-mail.

Any notice or other communication to be given by one party to another under this Facility Letter shall (unless one party has by no less than 5 Business Days' notice to the other party specified another address) and shall be given:-

16.1.1 in the case of the Borrower to its registered office; and

16.1.2 in the case of the Bank to the address detailed above.

16.2 Any notice or other communication given by any party shall be deemed to have been received:

16.2.1 in the case of a notice given by hand, at the time of day of actual delivery; or

16.2.2 if sent by fax, with a confirmed receipt of transmission from the receiving machine, on the day on which it is transmitted; or

16.2.3 if posted, by 10 am on the second Business Day following the day on which it was despatched by first class mail postage prepaid,

provided that a notice given in accordance with the above but received on a day which is not a Business Day or after normal business hours in the place of receipt shall be deemed to have been received on the next Business Day.

17 **Governing Law**

This Facility Letter shall be governed by and construed in accordance with the laws of England and Wales.

If you are in agreement with the aforesaid provisions, please sign and return the enclosed copy of this Facility Letter, as your acceptance of the terms and conditions set out herein.

Yours faithfully
For and on behalf of
SVENSKA HANDELSBANKEN AB (publ)

Authorised Signatory

Authorised Signatory

The Borrower hereby confirms and accepts the above mentioned terms and conditions contained in this Facility Letter and the following Schedules.

Signed for and on behalf of the Borrower

Authorised Signatory

Authorised Signatory

.....
Date

Schedule 1 – Conditions Precedent

- 1 A copy of this Facility Letter signed by duly authorised officials accepting on behalf of the Borrower or the terms and conditions set out herein;
 - 2 A Bank Mandate duly completed by or on behalf of the Borrower, together with such other documents as the Bank shall require to complete its account opening formalities and to ensure compliance with money laundering obligations;
 - 3 Such form of mandate or authority as the officers of the Borrower may be empowered to issue to bankers concerning the negotiation of any money market utilisation under this Facility Letter on behalf of the Borrower and to sign and/or endorse any documents required under or in connection with this Facility Letter on behalf of the Borrower;
 - 4 A copy of the Borrower's Certificate of Incorporation;
 - 5 A copy certified as true and accurate by a Director or the Secretary of the Borrower of a resolution authorising the appropriate officials to act on behalf of and to bind the Borrower in the acceptance of the terms and conditions of this Facility Letter and the execution of this Facility Letter any other necessary supporting documents ancillary thereto; and
 - 6 The Bank's Fees then due.
-

Schedule 2 – Definitions and Interpretation

"**Administration Fee**" means an administration fee of such amount or administration fees of such amounts as shall be determined by the Bank in its absolute discretion from time to time to fully compensate the Bank for the additional costs incurred or likely to be incurred by it in the operation and monitoring of the Facility. Such fee or fees will be payable on the Bank's first demand.

"**Bank's Fees**" means the Bank's fees set out in Clause 1.1.

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

- (a) the interest which the Bank should have received for the period from the date of receipt of all or any part of a Drawing or any unpaid sum to the last day of the current fixed rate period in respect of that Drawing or unpaid sum, had the principal amount or unpaid sum received been paid on the Maturity Date;

exceeds:

- (b) the amount which that Bank would be able to obtain by placing an amount equal to the principal amount or unpaid sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the relevant Maturity Date

and the provisions of this definition shall apply to each successive interest period for any unpaid amount or unpaid Drawing.

"**Breakage Fee**" means the Bank's breakage administration fee detailed in Clause 1.1.

"**Business Day**" means a day (other than a Saturday or Sunday) when the branch of the Bank at which the Borrower's account is located is open for business.

"**Default Rate**" means the aggregate of (i) the Bank's default interest margin in force from time to time, currently 2% per annum and (ii) the cost to the Bank of funding that sum during that period by whatever means it considers appropriate.

"**Financial Statements**" means audited annual profit and loss account, balance sheet and cash flow statement for each financial year (consolidated for each financial year during which any relevant corporate body has a subsidiary) together with related directors' or members' reports (as appropriate) and auditors' reports and the notes attached thereto.

"**Limit**" means the amount of the Facility set out in Clause 1.1.

"**Maturity Date**" means the agreed date for repayment of each Drawing.

"**Quarter Day**" means the Business Day falling on, or, if such day is not a Business Day the Business Day immediately before, each of 31st March, 30th June, 30th September or 31st December each year or any other quarter day that the Bank may advise the Borrower in replacement therefor from time to time as a consequence of a change in the Bank's internal accounting policies.

"**Sterling**" and the sign "£" mean the lawful currency of the United Kingdom.

Interpretation

Any reference in this Facility Letter to:

- (a) statutes, statutory provisions and other legislation shall include all amendments, substitutions, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant legislation.
- (b) **"including"** shall not be construed as limiting the generality of the words preceding it;
- (c) any clause, paragraph or schedule shall be construed as a reference to the clauses in this Facility Letter, the schedules to this Facility Letter and the paragraphs in such schedules;
- (d) the singular shall include the plural and vice versa and words denoting any gender shall include all genders and if any party to this Facility Letter constitutes more than one person all covenants, conditions and obligations shall be deemed to be given by all such parties on a joint and several basis unless this Facility Letter specifically provides otherwise;
- (e) this Facility Letter and to any provisions of it or to any other document referred to in this Facility Letter shall be construed as references to it in force for the time being and as amended, varied, supplemented, restated, substituted or novated from time to time;
- (f) a person is to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity;
- (g) any person is to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect;
- (h) any word or phrase includes all derivations thereof;
- (i) a matter being in the opinion of the Bank or at the Bank's discretion shall be in the sole opinion of the Bank taking into consideration the Bank's interests hereunder and in the case of the Bank's discretion it shall be at the Bank's sole unfettered discretion without taking into consideration other party's interests.

Clause headings are for ease of reference only and are not to affect the interpretation of this Facility Letter.

Resolution re Facility Letter

Extract from the Minutes of a Meeting of the Directors

of Western Power Distribution (South West) plc (the 'Company')

"After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business the Company agreed to enter into the Facility Letter in the form now produced (the "Letter").

It was resolved that the Letter be executed for and on behalf of the Company either by a Director and its Secretary, or by two Directors.

I hereby certify that the foregoing is a true extract from the Minutes of a Meeting of the Directors at which (all appropriate interests having been declared) a quorum entitled to vote was present duly held on the day of 2016 and that a true copy of the Letter has been retained by the Company.

Secretary _____

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31, (a)				
	2016	2015	2014	2013	2012	2011
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,947	\$ 2,068	\$ 2,129	\$ 1,728	\$ 1,406	\$ 922
Adjustment to reflect earnings from equity method investments on a cash basis (b)	—	(1)	—	—	34	—
	<u>1,947</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>	<u>1,440</u>	<u>922</u>
Total fixed charges as below	689	1,054	1,095	1,096	1,065	1,022
Less:						
Capitalized interest	3	11	11	11	6	4
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	5	23
Interest expense and fixed charges related to discontinued operations	—	150	186	235	235	231
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>686</u>	<u>893</u>	<u>898</u>	<u>850</u>	<u>819</u>	<u>764</u>
Total earnings	<u>\$ 2,633</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>	<u>\$ 2,259</u>	<u>\$ 1,686</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 681	\$ 1,038	\$ 1,073	\$ 1,058	\$ 1,019	\$ 955
Estimated interest component of operating rentals	8	16	22	38	41	44
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	5	23
Total fixed charges (d)	<u>\$ 689</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>
Ratio of earnings to fixed charges	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>	<u>1.7</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>	<u>1.7</u>

- (a) Reflects PPL's Supply segment as Discontinued Operations. See Note 8 to the Financial Statements for additional information.
- (b) Includes other-than-temporary impairment loss of \$25 million in 2012.
- (c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (d) Interest on unrecognized tax benefits is not included in fixed charges.
- (e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(Millions of Dollars)

	Nine Months Ended September 30, 2016	Years Ended December 31,				
	2016	2015	2014	2013	2012	2011
Earnings, as defined:						
Income Before Income Taxes	\$ 425	\$ 416	\$ 423	\$ 317	\$ 204	\$ 257
Total fixed charges as below	105	139	131	117	107	105
Total earnings	<u>\$ 530</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>	<u>\$ 311</u>	<u>\$ 362</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 102	\$ 135	\$ 127	\$ 113	\$ 104	\$ 102
Estimated interest component of operating rentals	3	4	4	4	3	3
Total fixed charges (b)	<u>\$ 105</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 107</u>	<u>\$ 105</u>
Ratio of earnings to fixed charges	<u>5.0</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.9</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 21
Fixed charges, as above	105	139	131	117	107	105
Total fixed charges and preferred stock dividends	<u>\$ 105</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 113</u>	<u>\$ 126</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.0</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.8</u>	<u>2.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2016	2015	2014	2013	2012	2011
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 539	\$ 603	\$ 553	\$ 551	\$ 331	\$ 419
Adjustment to reflect earnings from equity method investments on a cash basis (a)	—	(1)	(1)	(1)	33	(1)
	<u>539</u>	<u>602</u>	<u>552</u>	<u>550</u>	<u>364</u>	<u>418</u>
Total fixed charges as below	<u>165</u>	<u>189</u>	<u>173</u>	<u>151</u>	<u>157</u>	<u>153</u>
Total earnings	<u>\$ 704</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>	<u>\$ 521</u>	<u>\$ 571</u>
Fixed charges, as defined:						
Interest charges (b) (c)	\$ 159	\$ 181	\$ 167	\$ 145	\$ 151	\$ 147
Estimated interest component of operating rentals	<u>6</u>	<u>8</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total fixed charges	<u>\$ 165</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 153</u>
Ratio of earnings to fixed charges	<u>4.3</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(c) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2016	2015	2014	2013	2012	2011
Earnings, as defined:						
Income Before Income Taxes	\$ 257	\$ 299	\$ 272	\$ 257	\$ 192	\$ 195
Total fixed charges as below	56	61	51	36	44	46
Total earnings	\$ 313	\$ 360	\$ 323	\$ 293	\$ 236	\$ 241
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 53	\$ 57	\$ 49	\$ 34	\$ 42	\$ 44
Estimated interest component of operating rentals	3	4	2	2	2	2
Total fixed charges	\$ 56	\$ 61	\$ 51	\$ 36	\$ 44	\$ 46
Ratio of earnings to fixed charges	5.6	5.9	6.3	8.1	5.4	5.2

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2016	2015	2014	2013	2012	2011
Earnings, as defined:						
Income Before Income Taxes	\$ 335	\$ 374	\$ 355	\$ 360	\$ 215	\$ 282
Adjustment to reflect earnings from equity method investments on a cash basis (a)	—	(1)	(1)	(1)	33	(1)
	<u>335</u>	<u>373</u>	<u>354</u>	<u>359</u>	<u>248</u>	<u>281</u>
Total fixed charges as below	<u>74</u>	<u>86</u>	<u>80</u>	<u>73</u>	<u>72</u>	<u>73</u>
Total earnings	<u>\$ 409</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>	<u>\$ 320</u>	<u>\$ 354</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 71	\$ 82	\$ 77	\$ 70	\$ 69	\$ 70
Estimated interest component of operating rentals	<u>3</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 74</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>5.5</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>	<u>4.4</u>	<u>4.8</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Vincent Sorgi

Vincent Sorgi
 Senior Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer and Principal Accounting Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ Kent W. Blake

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

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer and Principal Accounting Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: November 29, 2016 (period: November 23, 2016)

Report of unscheduled material events or corporate changes.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 23, 2016

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

As previously announced, on November 23, 2016, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies") filed requests with the Kentucky Public Service Commission ("KPSC") for increases in annual base rates.

The applications request increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million, respectively, at LG&E. The proposed base rate increases would be an increase of 6.4% in electricity rates at KU and increases of 8.5% and 4.2% in electricity and gas rates, respectively, at LG&E.

LG&E's and KU's applications include requests for Certificates of Public Convenience and Necessity to implement an advanced metering system and a distribution automation program.

The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested authorized return-on-equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. A hearing on the applications is expected to be scheduled in the second quarter 2017. Subject to KPSC approval, the requested rates would become effective on July 1, 2017.

The proceedings have been designated as KPSC Case No. 2016-00370 for KU and Case No. 2016-00371 for LG&E.

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

Statements in this report regarding future events and their timing, including the Companies' requested rate increases, future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breining
Stephen K. Breining
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: November 29, 2016

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FORM 10-K

LG&E & KU Energy LLC - N/A

Filed: February 17, 2017 (period: December 31, 2016)

Annual report with a comprehensive overview of the company

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2016

OR

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

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

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

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

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

Common Stock of PPL Electric Utilities Corporation

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

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

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

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

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of June 30, 2016, PPL Corporation had 677,548,721 shares of its \$0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$25,577,464,218. As of January 31, 2017, PPL Corporation had 680,602,000 shares of its \$0.01 par value Common Stock outstanding.

As of January 31, 2017, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

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

As of January 31, 2017, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2017, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

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

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016. Such Statements will provide the information required by Part III of this Report.

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

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to the Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

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

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

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

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

AFUDC - Allowance for Funds Used During Construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - At-the-Market stock offering program.

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

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU, with a capacity of 642 MW (141 MW and 501 MW to LG&E and KU).

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

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

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

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

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

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

DDCP - Directors Deferred Compensation Plan.

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

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

DNO - Distribution Network Operator in the U.K.

DOJ - U.S. Department of Justice.

DPCRA - Distribution Price Control Review 4, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2005.

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

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

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

DSM - Demand Side Management. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers that benefit from the programs.

DUoS - Distribution Use of System. This forms the majority of WPD's revenues and is the charge to electricity suppliers who are WPD's customers and use WPD's network to distribute electricity.

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

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

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

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

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

EPS - earnings per share.

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Equity Unit(s) - refers to the 2011 Equity Units.

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

GWh - gigawatt-hour, one million kilowatt hours.

Holdco - Talen Energy Holdings, Inc., a Delaware corporation, which was formed for the purposes of the June 1, 2015 spinoff of PPL Energy Supply, LLC.

IBEW - International Brotherhood of Electrical Workers.

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

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

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after-tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied to PPL's Equity Units prior to settlement.

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

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

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

kV - kilovolt.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

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

LIBOR - London Interbank Offered Rate.

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

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MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

MMBtu - One million British Thermal Units.

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

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

NSR - The new source review provisions of the Clean Air Act that impose stringent emission control requirements on new and modified sources of air emissions that result in emission increases beyond thresholds allowed by the Clean Air Act.

OCI - other comprehensive income or loss.

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

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

PEDFA - Pennsylvania Economic Development Financing Authority.

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

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

PP&E - property, plant and equipment.

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

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

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

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

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Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures which have continued from April 2015 under RIIO-ED1. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - Renewable Energy Credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the PJM grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

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

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

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

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD which commenced April 1, 2015.

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

RJS Power - RJS Generation Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business contributed by its owners to Talen Energy.

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

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

SIP - PPL Corporation's 2012 Stock Incentive Plan.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

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

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

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

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

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

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

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

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

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

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

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

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

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

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

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

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Forward-looking Information

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the effect of the June 23, 2016 referendum in the U.K. to withdraw from the European Union and any actions taken in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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

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

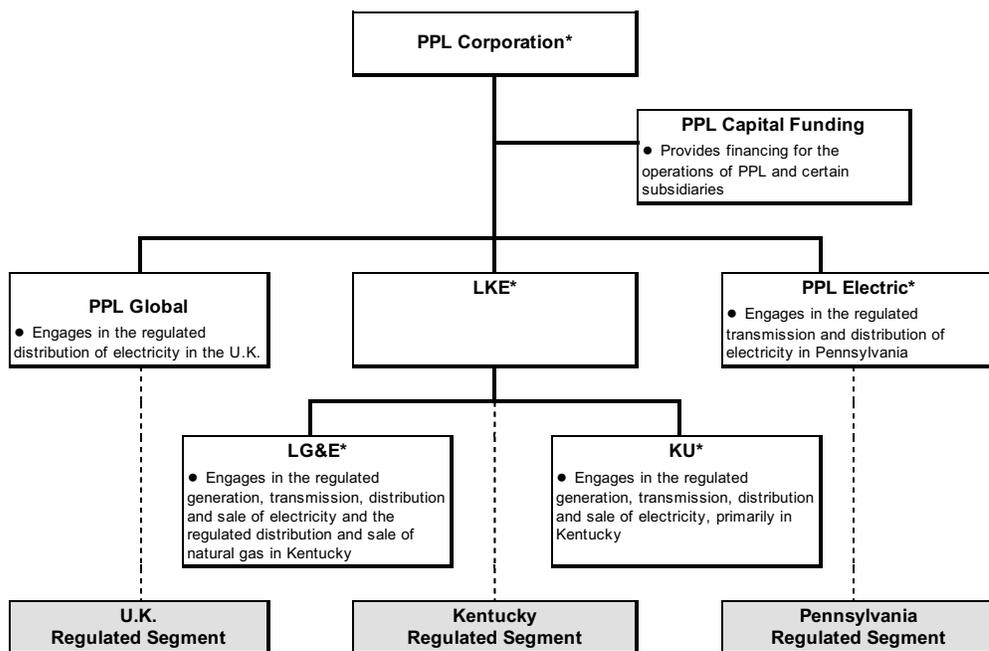
PART I
ITEM 1. BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See "Spinoff of PPL Energy Supply" below for more information.

PPL's principal subsidiaries at December 31, 2016 are shown below (* denotes a Registrant).



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

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

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also

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engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

(PPL)

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL's shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

See Note 8 to the Financial Statements for additional information.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs which primarily include financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. As a result of the June 1, 2015 spinoff of PPL Energy Supply, PPL no longer has a Supply segment.

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

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2016:			
Operating Revenues (in billions)	\$ 2.2	\$ 3.1	\$ 2.2
Net Income (in millions)	\$ 1,246	\$ 398	\$ 338
Electricity delivered (GWh)	74,728	33,006	36,645
At December 31, 2016:			
Regulatory Asset Base (in billions) (a)	\$ 8.5	\$ 8.9	\$ 6.1
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.8	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated. For U.K. Regulated, RAV is lower for 2016 compared with 2015 due to the effect of foreign currency exchange rates.

See Note 2 to the Financial Statements for additional financial information about the segments.

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

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

• ***U.K. Regulated Segment (PPL)***

Consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

WPD, through indirect wholly owned subsidiaries, operates four of the 15 regulated distribution networks providing electricity service in the U.K. The number of network customers (end-users) served by WPD totals 7.8 million across 21,600 square miles in south Wales and southwest and central England.

Revenues, in millions, for the years ended December 31 are shown below.

	2016	2015	2014
Operating Revenues	\$ 2,207	\$ 2,410	\$ 2,621

The majority of WPD's operating revenue is known as DUoS and is generated by providing regulated electricity distribution services to licensed third party energy suppliers who pay WPD for the use of WPD's distribution network to transfer electricity to the suppliers' customers, the end-users.

Franchise and Licenses

The operations of WPD's principal subsidiaries, WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands), are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each of the DNOs to develop, maintain and operate efficient distribution networks. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

WPD is authorized by Ofgem to provide electricity distribution services within its concession areas and service territories, subject to certain conditions and obligations. For instance, WPD is subject to Ofgem regulation with respect to the regulated revenue it can earn and the quality of service it must provide, and WPD can be fined or have its licenses revoked if it does not meet the mandated standard of service.

Ofgem has formal powers to propose modifications to each distribution license. In January 2014, Ofgem and WPD agreed to a reduction of £5 per residential end-user in the 2014/15 regulatory year to be recovered in the 2016/17 regulatory year. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - U.K. Distribution Revenue Reduction" for additional information.

Competition

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

Revenue and Regulation

Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues or penalties, adjustments for over- or under-recovery from prior periods and adjustments related to the DPCR4 line loss close out.

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced on April 1, 2015. The RIIO framework is intended to:

- encourage DNOs to deliver safe, reliable and sustainable network service at long-term value to customers;
- enable DNOs to finance required investment in a timely and efficient way;
- remunerate DNOs according to their delivery for customers;
- increase emphasis on outputs and incentives;
- enhance stakeholder engagement including network customers;
- provide a stronger incentive framework to encourage more efficient investment and innovation; and
- continue to stimulate innovation.

Additionally, from a financial perspective the RIIO-ED1 framework:

- regulates revenues for the DNOs in real terms using 2012/13 prices;
- inflates revenue components using the RPI beginning March 31, 2013, which has the effect of inflating RAV, with respect to base demand revenue;
- splits the recovery of Totex between immediate recovery (called "fast pot") and deferred recovery as an addition to the RAV (called "slow pot");
- provides DNOs with a general pass-through for costs over which the DNOs have no control (i.e., Ofgem fees, National Grid transmission charges and property taxes);
- provides a tax allowance based on Ofgem's notional tax charge, which may not equal the actual corporate tax paid;
- extends the recovery period for depreciation of RAV additions after April 1, 2015 from a 20 year life as used under DPCR5, to 45 years, with a transitional arrangement that will gradually increase the average asset life for RAV additions during RIIO-ED1 to approximately 35 years. The RAV as of March 31, 2015 will continue to be depreciated over 20 years. The asset lives used to determine depreciation expense for U.S. GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets;
- provides successful DNOs an incentive to be fast-tracked through the regulatory approval process, equivalent to 2.5% of Totex during the 8-year price control period; and
- maintains an incentive scheme for DNOs to be rewarded or penalized for performance in the areas of reliability and customer satisfaction, but places a maximum cap on the amount of incentive revenues that can be earned by a DNO.

The key components of WPD's four Ofgem-accepted RIIO-ED1 business plans are:

- all four DNO business plans were accepted for fast-track status (fast-track incentive is worth approximately \$35 million annually for WPD assuming a \$1.30/£ foreign currency exchange rate);
- WPD received a higher level of cost savings retention, which was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs;
- a cost of debt recovery comprised of a 10-year trailing average debt allowance, to be adjusted annually, compared to a 20-year trailing average for slow-tracked DNOs applied to 65% of RAV;
- a return on regulatory equity (RORE) allowance with an equity ratio of 35% of RAV and a cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs;
- a Totex split of 80% slow pot and 20% fast pot;
- recovery of approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans; and
- incentive targets that are significantly more stringent than those set under DPCR5, reducing the expected incentive revenues WPD can earn in RIIO-ED1 compared to DPCR5.

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WPD's combined business plans include funding for total expenditures of approximately \$16.6 billion over the eight-year period (assuming a \$1.30/£ foreign currency exchange rate), broken down as follows:

- Totex - \$11.0 billion (\$8.8 billion additions to RAV; \$2.2 billion fast pot);
- Pension deficit funding - \$1.6 billion;
- Cost of debt recovery - \$1.3 billion;
- Property taxes, Ofgem fees and National Grid transmissions charges - \$2.1 billion; and
- Corporate income taxes recovery - \$600 million.

The U.K. regulatory structure is an incentive-based structure in contrast to the typical U.S. regulatory structure, which operates on a cost-recovery model. The base demand revenue that a DNO can earn in each year of the current price control period is the sum of:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the fast pot recovery;
- pension deficit funding;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- certain pass-through costs over which the DNO has no control;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive);
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive discussed above;
- profiling adjustments - these adjustments do not affect the total base demand revenue in real terms over the eight-year price control period, but change the year in which the revenue is earned;
- adjustments from the Annual Iteration Process (AIP), discussed further below; and
- adjustments for inflation true-ups, discussed further below.

In addition to base demand revenue, WPD's allowed revenue primarily includes:

- an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets from prior periods;
- adjustments for over- or under-recovery of allowed revenue from prior periods; and
- a reduction in revenue related to the DPCR4 line loss close out.

During DPCR5, the prior price control review period, WPD's total base demand revenue for the five-year period was profiled in a manner that resulted in a weighted-average increase of about 5.5% per year for all four DNOs. In the first year of RIIO-ED1, base demand revenue decreased by about 11.8% primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base demand revenue will then increase by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2018 and by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition and contingency accounting guidance.

Base Demand Revenue True-up Mechanisms

Unlike prior price control reviews, base demand revenue under RIIO-ED1 will be adjusted during the price control period. The most significant of those adjustments are:

- **Inflation True-Up** - The base demand revenue for the RIIO-ED1 period was set in 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.
 - The TRU for the 2015/16 regulatory year was a \$40 million reduction to revenue and will reduce base demand revenue in calendar years 2017 and 2018 by \$27 million and \$13 million, respectively.
 - The projected TRU for the 2016/17 regulatory year is a \$6 million reduction to revenue and will reduce base demand revenue in calendar years 2018 and 2019 by \$4 million and \$2 million, respectively.
- **Annual Iteration Process** - The RIIO-ED1 price control period also includes an Annual Iteration Process (AIP). This will allow future base demand revenues agreed with the regulator as part of the price control review to be updated

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during the price control period for financial adjustments including tax, pensions and cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of \$15 million will reduce base demand revenue in calendar years 2017 and 2018 by \$10 million and \$5 million, respectively.
- The projected MOD for the 2016/17 regulatory year is a \$52 million reduction to revenue and will reduce base demand revenue in calendar years 2018 and 2019 by \$35 million and \$17 million, respectively.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers. PPL's projected earnings per share growth rate through 2020 includes both the TRU and MOD for regulatory year 2015/16 and the estimated TRU and MOD for 2016/17.

Allowed Revenue Components

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are discussed below.

Incentives: Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentives that may affect allowed revenue include:

- Interruptions Incentive Scheme (IIS) - This incentive has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages. The IIS target under RIIO-ED1 is divided into interruptions caused by planned and unplanned work. The target for planned interruptions is calculated as the annual average level of planned interruptions and minutes lost over a previous three-year period. The targets for unplanned interruptions for RIIO-ED1 are specified in the DNOs license, and targets for both the CIs and CMLs become more demanding each year.
- In addition to the IIS, the broad measure of customer service is enhanced in RIIO-ED1. This broad measure encompasses:
 - customer satisfaction in supply interruptions, connections and general inquiries;
 - complaints;
 - stakeholder engagement; and
 - delivery of social obligations.

The following table shows the amount of incentive revenue, primarily from IIS, that WPD has earned during DPCR5 and RIIO-ED1:

Regulatory Year Ended	Incentive Earned (in millions)	Regulatory Year Ended Incentive Included in Revenue
March 2012	\$ 83	March 2014
March 2013	104	March 2015
March 2014	117	March 2016
March 2015	110	March 2017
March 2016	99	March 2018

Based on applicable GAAP, incentive revenues are recorded in revenues when they are billed to customers.

DPCR4 Line Loss Adjustment

For regulatory years 2015/16 through 2018/19, allowed revenue will also be reduced to reflect Ofgem's final decision on the DPCR4 line loss incentives and penalties mechanism. WPD has a liability recorded related to this future revenue reduction and, therefore, this will not impact future earnings. See Note 6 to the Financial Statements for additional information.

Correction Factor

During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular

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period. Conversely, WPD could over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore, the 2014/15 over/under-recovery adjustment will occur in the 2016/17 regulatory year. Under this mechanism, in the 2016/17 regulatory year, WPD will recover the £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected by \$39 million in calendar year 2016 and are projected to be positively affected by \$16 million in calendar year 2017.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for 2016/17 and 2017/18. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

See Note 1 to the Financial Statements for additional information on revenue recognition.

See "Item 1A. Risk Factors - Risks Related to U.K. Regulated Segment" for additional information on the risks associated with the U.K. Regulated Segment.

Customers

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

• Kentucky Regulated Segment (PPL)

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

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 407,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 324,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 521,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and four customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 11 municipalities in Kentucky under load following contracts.

Details of operating revenues, in millions, by customer class for the years ended December 31 are shown below.

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
<u>LKE</u>						
Commercial	\$ 834	27	\$ 816	26	\$ 815	26
Industrial	601	19	628	20	627	20
Residential	1,261	40	1,245	40	1,281	40
Retail - other	288	9	267	9	279	9
Wholesale - municipal	116	4	114	4	109	3
Wholesale - other (a)	41	1	45	1	57	2
Total	\$ 3,141	100	\$ 3,115	100	\$ 3,168	100

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(a) Includes wholesale power and transmission revenues.

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	\$ 442	31	\$ 436	30	\$ 433	28
Industrial	185	13	199	14	194	13
Residential	627	44	633	44	650	43
Retail - other	135	9	117	8	130	8
Wholesale - other (a) (b)	41	3	59	4	126	8
Total	\$ 1,430	100	\$ 1,444	100	\$ 1,533	100

(a) Includes wholesale power and transmission revenues.

(b) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
KU						
Commercial	\$ 392	22	\$ 380	22	\$ 382	22
Industrial	416	24	429	25	433	25
Residential	634	36	612	35	631	36
Retail - other	153	9	150	9	149	9
Wholesale - municipal	116	7	114	7	109	6
Wholesale - other (a) (b)	38	2	43	2	33	2
Total	\$ 1,749	100	\$ 1,728	100	\$ 1,737	100

(a) Includes wholesale power and transmission revenues.

(b) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

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

Competition

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

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

Power Supply

At December 31, 2016, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,011 MW, of which 2,916 MW related to LG&E and 5,095 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

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

During 2016, LKE's Kentucky power plants generated the following amounts of electricity.

Fuel Source	GWh		
	LKE	LG&E	KU
Coal (a)	28,029	11,722	16,307
Oil / Gas	6,357	1,463	4,894
Hydro	408	321	87
Total (b)	34,794	13,506	21,288

(a) Includes 864 GWh of power generated by and purchased from OVEC for LKE, 598 GWh for LG&E and 266 GWh for KU.

(b) This generation represents a 0.1% increase for LKE, a 0.6% decrease for LG&E and a 0.4% increase for KU from 2015 output.

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

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

As a result of environmental requirements, KU retired two coal-fired units, with a combined capacity of 161 MW, at the Green River plant in September 2015. LG&E retired a 240 MW coal-fired unit in March 2015 and two additional coal-fired units, with a combined capacity of 323 MW, in June 2015 at the Cane Run plant. KU retired a 71 MW coal-fired unit at the Tyrone plant in 2013. In June 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site.

In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete.

Fuel Supply

Coal continues to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. As a result of Cane Run Unit 7 being placed into operation during 2015, natural gas is also a prominent fuel. The natural gas for this generating unit is purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

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

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2023 and augment their coal supply agreements with spot market purchases, as needed.

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

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2019 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as four other simple cycle units at the Cane Run and Paddy's Run sites. LG&E has also secured long-term firm pipeline transport capacity on an interstate pipeline for the summer months through October 2018 to serve an additional simple cycle gas turbine operated under a tolling agreement. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

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

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(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services can be expected to be at their highest. At December 31, 2016, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$42 million.

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

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2018 and 2021. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2018.

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

(PPL, LKE, LG&E and KU)

Transmission

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

Rates

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

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

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to 11 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, nine municipalities submitted notices of termination, under the notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date.

Rate Case

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and

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electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. On December 30, 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period.

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

- **Pennsylvania Regulated Segment (PPL)**

Consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply to retail customers in this area as a PLR under the Customer Choice Act.

Details of revenues, in millions, by customer class for the years ended December 31 are shown below.

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	\$ 1,327	61	\$ 1,338	63	\$ 1,285	63
Industrial	42	2	58	3	52	3
Commercial	338	16	377	18	367	18
Other (a)	(4)	—	(44)	(2)	5	—
Transmission	453	21	395	18	335	16
Total	\$ 2,156	100	\$ 2,124	100	\$ 2,044	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues and street lighting, offset by contra revenue associated with the network integration transmission service expense.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies, which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

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

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

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Rates and Regulation

Transmission

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

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

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

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

See Note 6 to the Financial Statements for additional information on rate mechanisms.

Distribution

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

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

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

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

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In

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2016, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 49% of residential, 86% of small commercial and industrial and 99% of large commercial and industrial customers. The PUC continues to be interested in expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities - Act 129" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which included 4 solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of 8 solicitations for electricity supply held semiannually in April and October. Pursuant to both the current and future plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

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

- **Corporate and Other (PPL)**

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

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

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

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or extreme winter weather make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Environmental Matters" in Note 13 to the Financial Statements for additional information regarding climate change.

FINANCIAL CONDITION

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

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information

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concerning projected capital expenditure requirements for 2017 through 2021. See Note 13 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2017 through 2021. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information and Note 6 to the Financial Statements for information related to the recovery of environmental compliance costs.

EMPLOYEE RELATIONS

At December 31, 2016, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions.

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,689	6,274	49%
PPL Electric	1,837	1,150	63%
LKE	3,507	819	23%
LG&E	1,023	696	68%
KU	919	123	13%

PPL's domestic workforce has 2,173 employees, or 36%, that are members of labor unions. A three-year bargaining agreement with the IBEW labor union, which expires in May 2017, covers 1,150 PPL Electric employees and 204 other employees. LG&E has 696 employees and KU has 69 employees that are represented by an IBEW labor union. LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2017 and August 2018. The KU IBEW agreement includes a wage reopener in 2017. KU has 54 employees that are represented by a United Steelworkers of America (USWA) labor union, under an agreement that expires in August 2017.

WPD has 4,101 employees who are members of labor unions (or 62% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 41% of its union workforce. WPD's Electricity Business Agreement, which covers 4,035 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investors heading of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

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

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

(PPL)

Risks Relating to the Spinoff of PPL Energy Supply and Formation of Talen Energy Corporation

If the spinoff of PPL Energy Supply does not qualify as a tax-free distribution under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the "Code"), including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareowners may be required to pay substantial U.S. federal income taxes.

Among other requirements, the completion of the June 1, 2015 spinoff of PPL Energy Supply and subsequent combination with RJS Power was conditioned upon PPL's receipt of a legal opinion of tax counsel to the effect that the spinoff will qualify as a reorganization pursuant to Section 368(a)(1)(D) and a tax-free distribution pursuant to Section 355 of the Code. Although receipt of such legal opinion was a condition to completion of the spinoff and subsequent combination, that legal opinion is not binding on the IRS. Accordingly, the IRS could reach conclusions that are different from those in the tax opinion. If, notwithstanding the receipt of such opinion, the IRS were to determine the distribution to be taxable (including as a result of the subsequent acquisition of Talen Energy by affiliates of Riverstone on December 6, 2016 (the "Talen Acquisition")), PPL would, and its shareowners could, depending on their individual circumstances, recognize a tax liability that could be substantial. In addition, notwithstanding the receipt of such opinion, if the IRS were to determine the merger to be taxable (including as a result of the Talen Acquisition), PPL shareowners may, depending on their individual circumstances, recognize a tax liability that could be material.

In addition, the spinoff would be taxable to PPL pursuant to Section 355(e) of the Code if there were a 50% or greater change in ownership (by vote or value) of either PPL or Talen Energy (including as a result of the Talen Acquisition), directly or indirectly, as part of a plan or series of related transactions that include the spinoff. Because PPL's shareowners collectively owned more than 50% of Talen Energy's common stock following the spinoff and combination with RJS Power, the combination alone would not cause the spinoff to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the spinoff, or of Talen Energy after the combination (including the Talen Acquisition), were considered to be part of a plan or series of related transactions that include the spinoff. PPL is not aware of any such plan or series of transactions that include the spinoff.

In connection with the closing of the Talen Acquisition, Talen Energy was required to deliver to PPL a legal opinion of tax counsel concluding that the Talen Acquisition would not affect the tax-free status of the spinoff. As described above, such legal opinion is not binding on the IRS, and accordingly, the IRS could reach conclusions that are different from those expressed in the legal opinion.

Risks related to our U.K. Segment

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

- changes in laws or regulations relating to U.K. operations, including rate regulations, operational performance and tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;

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- regulatory reviews of tariffs for distribution companies;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings;
- compliance with U.S. foreign corrupt practices laws; and
- prolonged periods of low inflation or deflation.

PPL's earnings may be adversely affected as a result of the June 23, 2016 referendum in the U.K. to withdraw from the European Union.

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union, including the nature and duration of negotiations between the U.K. and European Union as to the terms of any withdrawal. PPL cannot predict the impact, either short-term or long-term, on foreign exchange rates or PPL's long-term financial condition that may be experienced as a result of any actions that may be taken by the U.K. government to withdraw from the European Union, although such impacts could be significant.

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

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

Our U.K. segment is subject to inflationary risks.

Our U.K. distribution business is subject to the risks associated with fluctuations in RPI in the U.K., which is a measure of inflation.

In RHO-ED1, WPD's base demand revenue was established by Ofgem in 2012/13 prices. Base demand revenue is then increased by RPI for each year to arrive at the amount of revenue WPD can collect in tariffs. The RPI is forecasted and subject to true-up in subsequent years. The fluctuations between forecasted and actual RPI can then result in variances in base demand revenue. While WPD also has debt that is indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base demand revenue and offsets would likely affect different calendar years. Further, as RAV is indexed to RPI under U.K. regulations, a reduction in RPI could adversely affect the debt/RAV ratio, potentially limiting future borrowings at WPD's holding company.

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

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

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

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

(PPL and LKE)

Risk Related to Registrant Holding Companies

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

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

Because PPL and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's and LKE's rights and the rights of their creditors, including rights of debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts.

(PPL Electric, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

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

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

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our transmission and distribution operations, as well as our generation plants, are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and sensitive customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation.

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

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

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

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

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

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

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

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

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;

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

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

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

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

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

Risks Specific to Kentucky Regulated Segment

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(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid wastes, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are also applicable to the operations of our key suppliers or customers, such as coal producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our related compliance strategies entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require new technologies or aggressive schedules for construction, permitting and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

We are subject to operational, regulatory and other risks regarding certain significant developments in environmental regulation affecting coal-fired generation facilities.

Certain regulatory initiatives have been implemented or are under development which could represent significant developments or changes in environmental regulation and compliance costs or risk associated with the combustion of coal as occurs at LG&E's and KU's coal-fired generation facilities. In particular, such developments include the federal Clean Power Plan regulations governing greenhouse gas emissions at existing or new generation facilities, the federal Coal Combustion Residuals regulations governing coal by-product storage activities and the federal Effluent Limitations Guidelines governing water discharge activities. Such initiatives have the potential to require significant changes in generation portfolio composition and in coal combustion byproduct handling and disposal or water treatment and release facilities and methods from those historically used or currently available. Consequently, such developments may involve increased risks relating to the uncertain cost, efficacy and reliability of new technologies, equipment or methods. Compliance with such regulations could result in significant changes to LG&E's and KU's operations or commercial practices and material additional capital or operating expenditures. Such circumstances could also involve higher risks of compliance violations or of variations in rate or regulatory treatment when compared to existing frameworks.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

We plan to selectively pursue growth of our transmission capacity, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to pursue expansion of our transmission capacity over the next several years. We plan to do this through the potential construction or acquisition of transmission projects and capital investments to upgrade transmission infrastructure. These types of projects involve numerous risks. With respect to the construction or acquisition of transmission projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of

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both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory construction contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project.

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

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

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

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

Risks Related to All Segments

(All Registrants)

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

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

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

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit.

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

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

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

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

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unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities.

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

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

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

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

We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Federal Matters" in Note 6 and "Legal Matters," "Regulatory Issues" and "Environmental Matters - Domestic" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

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

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

We may incur liabilities in connection with discontinued operations.

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

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

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

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

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

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

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

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts and franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

None.

ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2016, WPD's distribution system in the U.K. includes 1,792 substations with a total capacity of 72 million kVA, 56,294 circuit miles of overhead lines and 82,776 underground cable miles.

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

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2016 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE	LG&E		KU	
		Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW
Coal						
Ghent - Units 1 - 4	1,917	1,917			100.00	1,917
Mill Creek - Units 1 - 4	1,465	1,465	100.00	1,465		
E.W. Brown - Units 1-3	681	681			100.00	681
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50	29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50	24
	<u>7,408</u>	<u>5,155</u>		<u>2,059</u>		<u>3,096</u>
Natural Gas/Oil						
E.W. Brown Unit 5 (c)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (c)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
Cane Run Unit 11	14	14	100.00	14		
	<u>2,756</u>	<u>2,756</u>		<u>794</u>		<u>1,962</u>
Hydro						
Ohio Falls - Units 1-8	60	60	100.00	60		
Dix Dam - Units 1-3	32	32			100.00	32
	<u>92</u>	<u>92</u>		<u>60</u>		<u>32</u>
Solar						
E.W. Brown Solar (d)	8	8	39.00	3	61.00	5
Total	<u>10,264</u>	<u>8,011</u>		<u>2,916</u>		<u>5,095</u>

- (a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.
- (b) These units are owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of these unit's total output and LG&E and KU fund their proportionate share of fuel and other operating costs. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 13 to the Financial Statements for additional information.
- (c) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

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- (d) This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2016, LG&E's transmission system included in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 97 substations (31 of which are shared with the transmission system) with a total capacity of 6 million kVA, 3,894 circuit miles of overhead lines and 2,520 underground cable miles. KU's transmission system included 142 substations (60 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,068 pole miles of lines. KU's distribution system included 474 substations (60 of which are shared with the transmission system) with a total capacity of 7 million kVA, 14,030 circuit miles of overhead lines and 2,443 underground cable miles.

LG&E's natural gas transmission system includes 4,363 miles of gas distribution mains and 401 miles of gas transmission mains, consisting of 264 miles of gas transmission pipeline, 119 miles of gas transmission storage lines, 18 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric has electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2016, PPL Electric's transmission system includes 47 substations with a total capacity of 25 million kVA and 5,314 circuit miles in service. PPL Electric's distribution system includes 350 substations with a total capacity of 13 million kVA, 37,291 circuit miles of overhead lines and 8,494 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

See Note 8 to the Financial Statements for information on the Regional Transmission Line Expansion Plan.

ITEM 3. LEGAL PROCEEDINGS

See Notes 5, 6 and 13 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2017, there were 58,194 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2016.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$288 million in 2016 and \$181 million in 2015.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$316 million in 2016 and \$219 million in 2015.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$128 million in 2016 and \$119 million in 2015.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$248 million in 2016 and \$153 million in 2015.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2016	2015	2014	2013	2012
Income Items (in millions)					
Operating revenues	\$ 7,517	\$ 7,669	\$ 7,852	\$ 7,263	\$ 6,856
Operating income	3,048	2,831	2,867	2,561	2,228
Income from continuing operations after income taxes attributable to PPL shareowners	1,902	1,603	1,437	1,368	1,114
Income (loss) from discontinued operations (net of income taxes) (f)	—	(921)	300	(238)	412
Net income attributable to PPL shareowners (f)	1,902	682	1,737	1,130	1,526
Balance Sheet Items (in millions)					
Total assets (d)	38,315	39,301	48,606	45,889	43,509
Short-term debt (d)	923	916	836	701	296
Long-term debt (d)	18,326	19,048	18,054	18,269	16,120
Noncontrolling interests	—	—	—	—	18
Common equity (d)	9,899	9,919	13,628	12,466	10,480
Total capitalization (d)	29,148	29,883	32,518	31,436	26,914
Financial Ratios					
Return on common equity - % (d)(f)	19.2	5.8	13.0	9.8	13.8
Ratio of earnings to fixed charges (c)	3.8	2.8	2.8	2.4	2.1
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	679,731	673,857	665,849	630,321	581,944
Weighted-average	677,592	669,814	653,504	608,983	580,276
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	\$ 2.80	\$ 2.38	\$ 2.19	\$ 2.24	\$ 1.91
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	\$ 2.79	\$ 2.37	\$ 2.16	\$ 2.12	\$ 1.90
Net income available to PPL common shareowners - Basic EPS	\$ 2.80	\$ 1.01	\$ 2.64	\$ 1.85	\$ 2.61
Net income available to PPL common shareowners - Diluted EPS	\$ 2.79	\$ 1.01	\$ 2.61	\$ 1.76	\$ 2.60
Dividends declared per share of common stock	\$ 1.52	\$ 1.50	\$ 1.49	\$ 1.47	\$ 1.44
Book value per share (d)	\$ 14.56	\$ 14.72	\$ 20.47	\$ 19.78	\$ 18.01
Market price per share	\$ 34.05	\$ 34.13	\$ 36.33	\$ 30.09	\$ 28.63
Dividend payout ratio - % (e)(f)	55	149	57	84	55
Dividend yield - % (g)	4.5	4.4	4.1	4.9	5.0
Price earnings ratio (e)(f)(g)	12.2	33.8	13.9	17.1	11.0
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,177	2,241	2,365	2,383	2,304
Domestic - Electric energy delivered - retail	67,474	67,798	68,569	67,848	66,931
U.K. - Electric energy delivered	74,728	75,907	75,813	78,219	77,467

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2016, 2015 and 2014. The earnings were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for a discussion of discontinued operations in 2015 and 2014.
- (b) See "Item 1A. Risk Factors" and Notes 1, 6 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short and long-term debt, amortization of debt discount, expense and premium-net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.
- (d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a \$3.2 billion related dividend.
- (e) Based on diluted EPS.
- (f) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with the applicable accounting rules under GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014.
- (g) Based on year-end market prices.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

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

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

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

(All Registrants)

This "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

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

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

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2016 with 2015 and 2015 with 2014. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provides explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

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

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See Note 8 to the Financial Statements for additional information.

Business Strategy

(All Registrants)

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL completed its strategic transformation to a fully regulated business model consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

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

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

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period and to result in earnings growth after 2017. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for a discussion of the U.K. earnings hedging activity in the third and fourth quarters of 2016.

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

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

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

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

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U.K. Membership in European Union (PPL)

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union (EU). In October 2016, the U.K. Prime Minister, Theresa May, announced her intent to invoke Article 50 of the Lisbon Treaty (Article 50) by March 31, 2017. Article 50 specifies that if a member state decides to withdraw from the EU, it should notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to whether the events referred to in the Prime Minister's announcement will occur within the times suggested as well as the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

In response to the decrease in the GBP to U.S. dollar exchange rate that occurred subsequent to the U.K.'s vote to withdraw from the EU, PPL has executed additional hedges to mitigate the foreign currency exposure to the Company's U.K. earnings. In the third quarter of 2016, PPL settled existing hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of approximately \$310 million of cash, and entered into new hedges at market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Additionally, in the third and fourth quarters of 2016, PPL restructured existing hedges related to 2016 and 2017 anticipated earnings and entered into additional hedges using forward contracts for 2018. This restructuring did not have a significant impact on 2016 net income as the hedge values continue to be marked to fair value. As of January 31, 2017, PPL's foreign currency exposure related to budgeted earnings is 92% hedged for 2017 at an average rate of \$1.21 per GBP, 87% hedged for 2018 at an average rate of \$1.42 per GBP and 50% hedged for 2019 at an average rate of \$1.34 per GBP.

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

Regulatory Requirements

(All Registrants)

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

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, ELGs, MATS and the Clean Power Plan. See "Financial Condition - Environmental Matters" below for additional information on the CCRs requirements. See Note 6, Note 13 and Note 19 to the Financial Statements for a discussion of the other significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015.

Also as a result of the environmental requirements discussed above, LKE projects \$1.4 billion (\$0.6 billion at LG&E and \$0.8 billion at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 6 and Note 13 for additional information.

(PPL)

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U.K. Distribution Revenue Reduction

In December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction in GBP, together with the associated carrying cost will occur in the regulatory year which began April 1, 2016. Revenues for the U.K. Regulated segment were adversely affected by \$19 million (\$15 million after-tax or \$0.02 per share) in 2015 and \$40 million (\$31 million after-tax or \$0.05 per share) in 2014. Revenues for the U.K. Regulated segment were positively affected by \$39 million (\$31 million after-tax or \$0.05 per share) in 2016. PPL projects revenues for 2017 will be positively affected by \$16 million (\$13 million after-tax or \$0.02 per share).

U.K. Tax Rate Change

The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result of this change, PPL reduced its net deferred tax liabilities and recognized an income tax benefit of \$42 million in 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and is treated as a special item.

U.K. Foreign Tax Credits

PPL will amend certain prior year U.S. federal income tax returns to claim foreign tax credits, rather than deduct foreign taxes, resulting in an income tax benefit of approximately \$35 million recognized in the fourth quarter of 2016. This decision was prompted by changes to the Company's most recent business plan.

Discount Rate Change for U.K. Pension Plans

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of \$43 million (\$34 million after-tax or \$0.05 per share). See "Application of Critical Accounting Policies-Defined Benefits" for additional information.

Regional Transmission Expansion Plan (PPL and PPL Electric)

In July 2014, PPL Electric announced Project Compass, a proposal to construct a new multi-state transmission line. In October 2015, PPL Electric filed an interconnection application with the New York Independent System Operator for the first segment of the project which contains a proposed 95-mile, \$500 million to \$600 million line between Blakely, Pennsylvania, and Ramapo, New York. The proposed line is intended to provide significant economic benefits for electricity customers in New York and also to provide grid reliability and grid security benefits for electricity customers in both states. The proposal envisions construction to begin in 2021 and for the project to be in operation by 2023. Numerous approvals will be required, including, among others, the public utility commissions of Pennsylvania and New York, the New York Independent System Operator, PJM, and FERC. As originally proposed in 2014, Project Compass would have run from western Pennsylvania into New York and New Jersey and also south into Maryland, covering approximately 725 miles at an estimated cost of \$4 billion to \$6 billion. The project has been revised to include about 475 miles of transmission line in Pennsylvania and New York at an estimated cost of \$3 billion to \$4 billion. Beyond this segment, no schedule is proposed for the rest of the project. There can be no assurance that this segment of Project Compass will be approved as proposed. Additionally, PPL Electric is continuing to study the project and may modify it in the future. The capital expenditures related to this project are excluded from the Capital Expenditures table included in "Liquidity and Capital Resources-Forecasted Uses of Cash" below.

Rate Case Proceedings (PPL, LKE, LG&E and KU)

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data

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discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. On December 30, 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period.

Discontinued Operations (PPL)

The operations of PPL's Supply segment prior to its June 1, 2015 spinoff are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2015 and 2014 Statements of Income.

See Note 8 to the Financial Statements for additional information related to the spinoff of PPL Energy Supply, including the components of Discontinued Operations.

Results of Operations

(PPL)

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

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

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

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

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing year-to-year changes. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating Revenues	\$ 7,517	\$ 7,669	\$ 7,852	\$ (152)	\$ (183)
Operating Expenses					
Operation					
Fuel	791	863	965	(72)	(102)
Energy purchases	706	855	924	(149)	(69)
Other operation and maintenance	1,745	1,938	1,856	(193)	82
Depreciation	926	883	923	43	(40)
Taxes, other than income	301	299	317	2	(18)
Total Operating Expenses	4,469	4,838	4,985	(369)	(147)
Other Income (Expense) - net	390	108	105	282	3
Interest Expense	888	871	843	17	28
Income Taxes	648	465	692	183	(227)
Income from Continuing Operations After Income Taxes	1,902	1,603	1,437	299	166
Income (Loss) from Discontinued Operations (net of income taxes)	—	(921)	300	921	(1,221)
Net Income	\$ 1,902	\$ 682	\$ 1,737	\$ 1,220	\$ (1,055)

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Domestic:		
PPL Electric Distribution price (a)	\$ 126	\$ 22
PPL Electric Distribution volume	(9)	(4)
PPL Electric PLR Revenue (b)	(135)	15
PPL Electric Transmission Formula Rate	59	60
LKE Base rates	68	64
LKE Volumes	1	(85)
LKE Fuel and other energy prices (b)	(81)	(113)
LKE ECR	39	86
Other	(17)	(17)
Total Domestic	51	28
U.K.:		
Price	98	(99)
Volume	(36)	5
Line loss accrual adjustments (c)	—	65
Foreign currency exchange rates	(255)	(188)
Other	(10)	6
Total U.K.	(203)	(211)
Total	\$ (152)	\$ (183)

(a) Distribution rate case effective January 1, 2016, resulted in increases of \$160 million for the year ended December 31, 2016.

(b) Decreases due to lower recoveries of fuel and energy purchases primarily as a result of lower commodity costs at LKE and lower energy purchase prices at PPL Electric.

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(c) In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism, which resulted in a \$65 million reduction to Operating Revenues in 2014. See Note 6 to the Financial Statements for additional information.

Fuel

Fuel decreased \$72 million in 2016 compared with 2015 primarily due to a decrease in market prices for coal and natural gas.

Fuel decreased \$102 million in 2015 compared with 2014 due to a \$57 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a \$45 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased \$149 million in 2016 compared with 2015 primarily due to a \$124 million decrease in PLR prices and a \$12 million decrease in PLR volumes at PPL Electric, a \$9 million decrease in the market price of natural gas and a \$5 million decrease in natural gas volumes at LKE.

Energy purchases decreased \$69 million in 2015 compared with 2014 primarily due to a \$38 million decrease in the market price of natural gas and a \$30 million decrease in natural gas volumes at LKE.

Other Operation and Maintenance

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

	<u>2016 vs. 2015</u>	<u>2015 vs. 2014</u>
Domestic:		
LKE plant operations and maintenance (a)	\$ (19)	\$ 9
LKE pension expense	(12)	14
PPL Electric payroll-related costs	(26)	2
PPL Electric Act 129	(15)	9
PPL Electric contractor related expenses	7	7
PPL Electric vegetation management	4	7
PPL Electric universal service programs	3	6
Storm costs	6	(18)
Bad debts	(5)	—
Third-party costs related to the spinoff of PPL Energy Supply (Note 8)	(13)	5
Separation benefits related to the spinoff of PPL Energy Supply (Note 8)	(8)	(12)
Corporate costs previously included in discontinued operations (b)	8	27
Stock compensation expense	(6)	3
Other	18	26
U.K.:		
Pension expense (c)	(86)	(14)
Foreign currency exchange rates	(33)	(33)
Third-party engineering	(8)	7
Engineering management	7	19
National Grid exit charges	(2)	11
Other	(13)	7
Total	<u>\$ (193)</u>	<u>\$ 82</u>

(a) Includes a \$29 million reduction of costs in 2016 due to the retirement of Cane Run and Green River coal units partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations.

(b) The increase in 2015 compared with 2014 was due to the corporate costs allocated to PPL Energy Supply (and included in discontinued operations) prior to the spin. As a result of the spinoff on June 1, 2015, these corporate costs now remain in continuing operations.

(c) The decrease in 2016 compared with 2015 was primarily due to an increase in expected returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.

[Table of Contents](#)**Depreciation**

The increase (decrease) in depreciation was due to:

	2016 vs. 2015	2015 vs. 2014
Additions to PP&E, net	\$ 76	\$ 77
Foreign currency exchange rates	(27)	(19)
Network asset useful life extension (a)	—	(84)
Other	(6)	(14)
Total	\$ 43	\$ (40)

(a) Effective January 1, 2015, after completion of a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years resulting in lower depreciation.

Taxes, Other Than Income

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

	2016 vs. 2015	2015 vs. 2014
State gross receipts tax (a)	\$ 11	\$ (14)
Domestic property tax expense	4	5
Foreign currency exchange rates	(15)	(11)
Other	2	2
Total	\$ 2	\$ (18)

(a) 2015 includes the settlement of the 2011 gross receipts tax audit that resulted in the reversal of \$17 million of previously recognized reserves.

Other Income (Expense) - net

Other income (expense) - net increased \$282 million in 2016 compared with 2015 and increased \$3 million in 2015 compared with 2014 primarily due to changes in realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

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

	2016 vs. 2015	2015 vs. 2014
Long-term debt interest expense (a)	\$ 63	\$ 61
Hedging activities and ineffectiveness	(4)	(4)
Loss on extinguishment of debt (b)	—	(9)
Foreign currency exchange rates	(43)	(26)
Other	1	6
Total	\$ 17	\$ 28

(a) The increase in 2016 compared with 2015 was primarily due to debt issuances at WPD in November 2015, LG&E and KU in September 2015 and PPL Capital Funding in May 2016 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

The increase in 2015 compared with 2014 was primarily due to 2015 including interest expense related to certain PPL Energy Funding debt that was previously associated with PPL's former Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes) in 2014.

(b) In March 2014, a \$9 million loss was recorded related to PPL Capital Funding's remarketing and debt exchange of the junior subordinated notes originally issued in April 2011 as a component of the 2011 Equity Units.

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Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Change in pre-tax income at current period tax rates	\$ 184	\$ (18)
Valuation allowance adjustments (a)	(8)	(31)
Federal and state tax reserve adjustments (b)	22	(21)
U.S. income tax on foreign earnings net of foreign tax credit (c)	(50)	(55)
U.K. Finance Act adjustments (d)	42	(90)
Interest benefit on U.K. financing activities	3	(15)
Stock-based compensation (e)	(10)	—
Other	—	3
Total	\$ 183	\$ (227)

(a) During 2016, PPL recorded deferred tax expense for valuation allowances primarily related to the increase in Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded \$24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of \$12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and \$12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

As a result of the PPL Energy Supply spinoff announcement, PPL recorded \$50 million of deferred income tax expense during 2014 to adjust the valuation allowance on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 to the Financial Statements for additional information on the spinoff.

(b) During 2015, PPL recorded a \$9 million tax benefit related to a planned amendment of a prior period tax return and a \$12 million tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

(c) During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

During 2015, PPL recorded lower income taxes primarily due to a decrease in taxable dividends.

During 2014, PPL recorded \$47 million of income tax expense primarily attributable to taxable dividends.

(d) The U.K.'s Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate from 18% to 17% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a \$42 million deferred tax benefit in 2016.

The U.K.'s Finance Act 2015, enacted in November 2015, reduces the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a \$90 million deferred tax benefit in 2015 related to both rate decreases.

(e) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 of the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information on income taxes.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (Loss) from Discontinued Operations (net of income taxes) for 2015 and 2014 includes the results of operations of PPL Energy Supply, which was spun off from PPL on June 1, 2015 and substantially represents PPL's former Supply segment. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Segment Earnings

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
U.K. Regulated	\$ 1,246	\$ 1,121	\$ 982	\$ 125	\$ 139
Kentucky Regulated	398	326	312	72	14
Pennsylvania Regulated	338	252	263	86	(11)
Corporate and Other (a)	(80)	(96)	(120)	16	24
Discontinued Operations (b)	—	(921)	300	921	(1,221)
Net Income	\$ 1,902	\$ 682	\$ 1,737	\$ 1,220	\$ (1,055)

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- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. 2015 and 2014 include certain costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.
- (b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's former Supply segment, the earnings of the Supply segment prior to the spinoff are included in Discontinued Operations. 2015 includes an \$879 million charge reflecting the difference between PPL's recorded value for the Supply segment and its estimated fair value as of the spinoff date, determined in accordance with the applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.

Earnings from Ongoing Operations

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

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Earnings from Ongoing Operations for 2014 also reflects, within the Corporate and Other category, the impact of spinoff dissynergies that, if not mitigated, would remain with PPL after completion of the spinoff. Special items include:

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

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 17 to the Financial Statements and "Risk Management" below for additional information on foreign currency-related economic activity.

PPL's Earnings from Ongoing Operations by reportable segment were as follows:

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
U.K. Regulated	\$ 1,015	\$ 968	\$ 907	\$ 47	\$ 61
Kentucky Regulated	398	343	312	55	31
Pennsylvania Regulated	338	252	265	86	(13)
Corporate and Other (a)(b)	(77)	(74)	(135)	(3)	61
Earnings from Ongoing Operations	\$ 1,674	\$ 1,489	\$ 1,349	\$ 185	\$ 140

- (a) 2014 was adjusted to include costs that were previously allocated to the Supply segment that would remain with PPL after the completion of the transaction, if left unmitigated.
- (b) Costs were lower in 2015 compared with 2014 primarily due to the benefits of corporate restructuring.

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

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S.

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income taxes, administrative costs, and certain acquisition-related financing costs. The U.K. Regulated segment represents 66% of PPL's Net Income for 2016 and 38% of PPL's assets at December 31, 2016.

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating revenues	\$ 2,207	\$ 2,410	\$ 2,621	\$ (203)	\$ (211)
Other operation and maintenance	344	477	482	(133)	(5)
Depreciation	233	242	337	(9)	(95)
Taxes, other than income	135	148	157	(13)	(9)
Total operating expenses	712	867	976	(155)	(109)
Other Income (Expense) - net	386	123	127	263	(4)
Interest Expense	402	417	461	(15)	(44)
Income Taxes	233	128	329	105	(201)
Net Income	1,246	1,121	982	125	139
Less: Special Items	231	153	75	78	78
Earnings from Ongoing Operations	\$ 1,015	\$ 968	\$ 907	\$ 47	\$ 61

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

	Income Statement Line Item	2016	2015	2014
Settlement of foreign currency contracts, net of tax of (\$108), \$0, \$0 (b)	Other Income (Expense) - net	202	—	—
Change in U.K. tax rate (c)	Income Taxes	37	78	—
WPD Midlands acquisition-related adjustment, net of tax of \$0, (\$1), \$0	Other operation and maintenance	—	2	—
Settlement of certain income tax positions (d)	Income Taxes	—	18	—
Change in WPD line loss accrual, net of tax of \$0, \$0, \$13 (e)	Operating Revenues	—	—	(52)
Total		\$ 231	\$ 153	\$ 75

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.
- (b) In 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income. See Note 17 to the Financial Statements for additional information.
- (c) The U.K. Finance Acts of 2016 and 2015 reduced the U.K.'s statutory income tax rates. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016 and 2015. See Note 5 to the Financial Statements for additional information.
- (d) Relates to the April 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.
- (e) In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during 2014 WPD increased its existing liability for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

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

	2016 vs. 2015	2015 vs. 2014
U.K.		
Gross margins	\$ 62	\$ (110)
Other operation and maintenance	94	(14)
Depreciation	(18)	76
Interest expense	(28)	3
Other	(3)	(5)
Income taxes	(18)	48

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	2016 vs. 2015	2015 vs. 2014
U.S.		
Interest expense and other	(2)	12
Income taxes	41	55
Foreign currency exchange, after-tax	(81)	(4)
Earnings from Ongoing Operations	47	61
Special items, after-tax	78	78
Net Income	<u>\$ 125</u>	<u>\$ 139</u>

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to \$86 million from lower pension expense due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.
- Lower depreciation expense in 2015 compared with 2014 primarily due to an \$84 million impact of an extension of the network asset lives. See Note 1 to the Financial Statements for additional information.
- Lower income taxes in 2015 compared with 2014 primarily due to \$25 million from lower U.K. tax rates and \$11 million from lower pre-tax income.

U.S.

- Lower income taxes in 2016 compared with 2015 primarily due to a benefit related to foreign tax credit carryforwards.
- Lower income taxes in 2015 compared with 2014 primarily due to decreases in taxable dividends.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 21% of PPL's Net Income for 2016 and 37% of PPL's assets at December 31, 2016.

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating revenues	\$ 3,141	\$ 3,115	\$ 3,168	\$ 26	\$ (53)
Fuel	791	863	965	(72)	(102)
Energy purchases	171	184	253	(13)	(69)
Other operation and maintenance	804	837	815	(33)	22
Depreciation	404	382	354	22	28
Taxes, other than income	62	57	52	5	5
Total operating expenses	2,232	2,323	2,439	(91)	(116)
Other Income (Expense) - net	(9)	(13)	(9)	4	(4)
Interest Expense	260	232	219	28	13
Income Taxes	242	221	189	21	32
Net Income	398	326	312	72	14
Less: Special Items	—	(17)	—	17	(17)
Earnings from Ongoing Operations	<u>\$ 398</u>	<u>\$ 343</u>	<u>\$ 312</u>	<u>\$ 55</u>	<u>\$ 31</u>

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

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	Income Statement Line Item	2016	2015	2014
Certain income tax valuation allowances (a)	Income Taxes	\$ —	\$ (12)	\$ —
LKE acquisition-related adjustment, net of tax of \$0, \$0, \$0 (b)	Other Income (Expense) - net	—	(5)	—
Total		\$ —	\$ (17)	\$ —

- (a) Recorded at LKE and represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
(b) Recorded at PPL and allocated to the Kentucky Regulated segment. The amount represents a settlement between E.ON AG (a German corporation and the indirect parent of E.ON US Investments Corp., the former parent of LKE) and PPL for a tax matter.

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

	2016 vs. 2015	2015 vs. 2014
Kentucky Gross Margins	\$ 83	\$ 88
Other operation and maintenance	42	(21)
Depreciation	(4)	(1)
Taxes, other than income	(4)	(3)
Other Income (Expense) - net	(1)	1
Interest Expense	(28)	(13)
Income Taxes	(33)	(20)
Earnings from Ongoing Operations	55	31
Special Items, after-tax	17	(17)
Net Income	<u>\$ 72</u>	<u>\$ 14</u>

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to a \$29 million reduction of costs as a result of coal units retired in 2015 at the Cane Run and Green River plants, partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations and \$12 million of lower pension expense mainly due to higher discount rates and deferred amortization of actuarial losses.
- Higher other operation and maintenance expense in 2015 compared with 2014 primarily due to \$14 million of higher pension expense and \$11 million of higher costs related to the Cane Run units' retirements consisting of an inventory write-down and separation benefits, partially offset by \$7 million of lower storm costs and lower bad debt expense of \$6 million.
- Higher interest expense for both periods primarily due to the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced by LKE with an affiliate in November 2015.
- Higher income taxes for both periods primarily due to higher pre-tax income.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 18% of PPL's Net Income for 2016 and 25% of PPL's assets at December 31, 2016.

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

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	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating revenues	\$ 2,156	\$ 2,124	\$ 2,044	\$ 32	\$ 80
Energy purchases					
External	535	657	587	(122)	70
Intersegment	—	14	84	(14)	(70)
Other operation and maintenance	601	607	543	(6)	64
Depreciation	253	214	185	39	29
Taxes, other than income	105	94	107	11	(13)
Total operating expenses	1,494	1,586	1,506	(92)	80
Other Income (Expense) - net	17	8	7	9	1
Interest Expense	129	130	122	(1)	8
Income Taxes	212	164	160	48	4
Net Income	338	252	263	86	(11)
Less: Special Items	—	—	(2)	—	2
Earnings from Ongoing Operations	\$ 338	\$ 252	\$ 265	\$ 86	\$ (13)

The following after-tax loss, which management considers a special item, impacted the Pennsylvania Regulated segment's results and is excluded from Earnings from Ongoing Operations.

	Income Statement Line Item	2016	2015	2014
Separation benefits, net of tax of \$0, \$0, \$1 (a)	Other operation and maintenance	\$ —	\$ —	\$ (2)

(a) In June 2014, PPL Electric's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, bargaining unit one-time voluntary retirement benefits were recorded.

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

	2016 vs. 2015	2015 vs. 2014
Pennsylvania Gross Margins	\$ 177	\$ 65
Other operation and maintenance	—	(58)
Depreciation	(39)	(29)
Taxes, other than income	(14)	18
Other Income (Expense) - net	9	1
Interest Expense	1	(8)
Income Taxes	(48)	(2)
Earnings from Ongoing Operations	86	(13)
Special Item, after-tax	—	2
Net Income	\$ 86	\$ (11)

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.
- Other operation and maintenance expense for 2016 was comparable with 2015 primarily due to \$26 million of lower payroll related expenses, partially offset by \$8 million of higher corporate service costs allocated to PPL Electric, \$8 million of higher costs for additional work done by outside vendors and other costs, which were not individually significant in comparison to the prior year.
- Higher other operation and maintenance expense for 2015 compared with 2014 primarily due to \$30 million of higher corporate service costs allocated to PPL Electric, \$11 million of higher vegetation management expenses and related costs for additional work done by outside vendors and \$5 million of higher bad debt expenses.
- Higher depreciation expense for both periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.
- Higher taxes, other than income for 2016 compared with 2015 and lower taxes, other than income for 2015 compared with 2014 primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of \$17 million of previously recognized reserves in 2015.

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- Higher income taxes in 2016 compared with 2015 primarily due to higher pre-tax income.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the years ended December 31.

	2016				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 1,246	\$ 398	\$ 338	\$ (80)	\$ 1,902
Less: Special Items (expense) benefit:					
Foreign currency-related economic hedges, net of tax of \$4	(8)	—	—	—	(8)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(3)	(3)
Other:					
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	231	—	—	(3)	228
Earnings from Ongoing Operations	\$ 1,015	\$ 398	\$ 338	\$ (77)	\$ 1,674

	2015					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 1,121	\$ 326	\$ 252	\$ (96)	\$ (921)	\$ 682
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of (\$30)	55	—	—	—	—	55
Spinoff of the Supply segment:						
Discontinued operations, net of tax of \$30	—	—	—	—	(921)	(921)
Transition and transaction costs, net of tax of \$6	—	—	—	(12)	—	(12)
Employee transitional services, net of tax of \$2	—	—	—	(5)	—	(5)
Separation benefits, net of tax of \$3	—	—	—	(5)	—	(5)
Other:						
Change in U.K. tax rate	78	—	—	—	—	78
Settlement of certain income tax positions	18	—	—	—	—	18
WPD Midlands acquisition-related adjustment, net of tax of (\$1)	2	—	—	—	—	2
Certain income tax valuation allowances	—	(12)	—	—	—	(12)
LKE acquisition-related adjustment, net of tax of \$0	—	(5)	—	—	—	(5)
Total Special Items	153	(17)	—	(22)	(921)	(807)
Earnings from Ongoing Operations	\$ 968	\$ 343	\$ 252	\$ (74)	\$ —	\$ 1,489

	2014					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 982	\$ 312	\$ 263	\$ (120)	\$ 300	\$ 1,737
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges, net of tax of (\$68)	127	—	—	—	—	127
Spinoff of the Supply segment:						
Supply segment earnings, net of tax of (\$93)	—	—	—	—	307	307
Discontinued operations adjustments, net of tax of \$3, (\$3)	—	—	—	(5)	5	—
Change in tax valuation allowances	—	—	—	(46)	—	(46)
Transition and transaction costs, net of tax of \$3, \$7	—	—	—	(5)	(12)	(17)
Separation benefits, net of tax of \$6	—	—	—	(12)	—	(12)

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	2014					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Other:						
Change in WPD line loss accrual, net of tax of \$13	(52)	—	—	—	—	(52)
Separation benefits, net of tax of \$1	—	—	(2)	—	—	(2)
Total Special Items	75	—	(2)	(68)	300	305
Dissynergies-spinoff of Supply segment expense (benefit):						
Indirect operation and maintenance, net of tax of (\$33)	—	—	—	47	—	47
Interest expense, net of tax of (\$20)	—	—	—	29	—	29
Depreciation, net of tax of (\$5)	—	—	—	7	—	7
Total dissynergies-spinoff of Supply segment	—	—	—	83	—	83
Earnings from Ongoing Operations	\$ 907	\$ 312	\$ 265	\$ (135)	\$ —	\$ 1,349

Margins

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

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in operating revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "Energy purchases from affiliate" in the reconciliation tables. As a result of the June 2015 spinoff of PPL Energy Supply and the formation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are reflected in "Energy Purchases" in the reconciliation tables. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

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

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Changes in Margins

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
U.K. Regulated					
U.K. Gross Margins	\$ 2,067	\$ 2,243	\$ 2,527	\$ (176)	\$ (284)
Impact of changes in foreign currency exchange rates				(238)	(174)
U.K. Gross Margins excluding impact of foreign currency exchange rates	\$ 62	\$ (110)			
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	\$ 887	\$ 867	\$ 833	\$ 20	\$ 34
KU	1,122	1,059	1,005	63	54
Total Kentucky Gross Margins	\$ 2,009	\$ 1,926	\$ 1,838	\$ 83	\$ 88
Pennsylvania Regulated					
Pennsylvania Gross Margins					
Distribution	\$ 960	\$ 842	\$ 837	\$ 118	\$ 5
Transmission	454	395	335	59	60
Total Pennsylvania Gross Margins	\$ 1,414	\$ 1,237	\$ 1,172	\$ 177	\$ 65

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2016 compared with 2015 primarily due to \$166 million from the April 1, 2016 price increase, which includes \$39 million of the recovery of prior customer rebates, and \$21 million of other revenue adjustments in the first quarter of 2016, partially offset by \$89 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1 and \$36 million from lower volumes.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased in 2015 compared with 2014 primarily due to \$171 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1, partially offset by \$46 million from the April 1, 2014 price increase.

Kentucky Gross Margins

Kentucky Gross Margins increased in 2016 compared with 2015 primarily due to higher base rates of \$68 million (\$4 million at LG&E and \$64 million at KU) and returns on additional environmental capital investments of \$13 million at LG&E. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015.

Kentucky Gross Margins increased in 2015 compared with 2014 primarily due to higher base rates of \$64 million (\$3 million at LG&E and \$61 million at KU) and returns on additional environmental capital investments of \$53 million (\$36 million at LG&E and \$17 million at KU). The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. These increases were partially offset by lower sales volumes of \$28 million (\$5 million at LG&E and \$23 million at KU) driven by milder weather during the fourth quarter of 2015.

Pennsylvania Gross Margins

Distribution

Distribution margins increased in 2016 compared with 2015 primarily due to \$121 million of higher base rates, effective January 1, 2016 as a result of the 2015 rate case.

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Distribution margins increased in 2015 compared with 2014 primarily due to returns on additional distribution improvement capital investments of \$17 million partially offset by a \$12 million benefit recorded in the first quarter of 2014 as a result of a change in estimate of a regulatory liability.

Transmission

Transmission margins increased for both periods primarily due to returns on additional capital investments focused on replacing the aging infrastructure and improving reliability.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31.

	2016				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,165 (c)	\$ 3,141	\$ 2,156	\$ 55	\$ 7,517
Operating Expenses					
Fuel	—	791	—	—	791
Energy purchases	—	171	535	—	706
Other operation and maintenance	98	109	108	1,430	1,745
Depreciation	—	56	—	870	926
Taxes, other than income	—	5	99	197	301
Total Operating Expenses	98	1,132	742	2,497	4,469
Total	\$ 2,067	\$ 2,009	\$ 1,414	\$ (2,442)	\$ 3,048
	2015				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,364 (c)	\$ 3,115	\$ 2,124	\$ 66	\$ 7,669
Operating Expenses					
Fuel	—	863	—	—	863
Energy purchases	—	184	657	14	855
Energy purchases from affiliate	—	—	14	(14)	—
Other operation and maintenance	121	100	114	1,603	1,938
Depreciation	—	38	—	845	883
Taxes, other than income	—	4	102	193	299
Total Operating Expenses	121	1,189	887	2,641	4,838
Total	\$ 2,243	\$ 1,926	\$ 1,237	\$ (2,575)	\$ 2,831
	2014				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,638 (c)	\$ 3,168	\$ 2,044	\$ 2	\$ 7,852
Operating Expenses					
Fuel	—	965	—	—	965
Energy purchases	—	253	587	84	924
Energy purchases from affiliate	—	—	84	(84)	—
Other operation and maintenance	111	99	103	1,543	1,856
Depreciation	—	11	—	912	923
Taxes, other than income	—	2	98	217	317
Total Operating Expenses	111	1,330	872	2,672	4,985
Total	\$ 2,527	\$ 1,838	\$ 1,172	\$ (2,670)	\$ 2,867

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- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.
- (c) 2016, 2015 and 2014 exclude \$42 million, \$46 million and \$48 million of ancillary activity revenues. 2014 also excludes \$65 million of revenue reductions related to adjustments to WPD's line loss accrual related to DPCR4, which is considered a special item.

2017 Outlook

(PPL)

Lower net income is projected in 2017 compared with 2016 primarily from a lower assumed GBP exchange rate in 2017 and 2016 tax benefits that are not expected to repeat in 2017. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2017 compared with 2016 due to a lower assumed GBP exchange rate in 2017, lower incentive revenues, higher interest expense, higher depreciation expense and higher income taxes, partially offset by lower operation and maintenance expense, including pension expense.

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

Slightly higher net income is projected in 2017 compared with 2016 primarily driven by electricity and gas base rate increases, partially offset by higher operation and maintenance expense and higher depreciation expense.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

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

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, and Notes 1, 6 and 13 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating Revenues	\$ 2,156	\$ 2,124	\$ 2,044	\$ 32	\$ 80
Operating Expenses					
Operation					
Energy purchases	535	657	587	(122)	70
Energy purchases from affiliate	—	14	84	(14)	(70)
Other operation and maintenance	599	607	543	(8)	64
Depreciation	253	214	185	39	29
Taxes, other than income	105	94	107	11	(13)
Total Operating Expenses	1,492	1,586	1,506	(94)	80
Other Income (Expense) - net	17	8	7	9	1
Interest Expense	129	130	122	(1)	8
Income Taxes	212	164	160	48	4
Net Income	\$ 340	\$ 252	\$ 263	\$ 88	\$ (11)

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Distribution Price (a)	\$ 126	\$ 22
Distribution volume	(9)	(4)
PLR (b)	(135)	15
Transmission Formula Rate	59	60
Other	(9)	(13)
Total	\$ 32	\$ 80

(a) Distribution rate case effective January 1, 2016, resulted in increases of \$160 million for the year ended December 31, 2016.

(b) In 2016 compared with 2015 the decrease was primarily due to lower energy purchase prices as described below.

Energy Purchases

Energy purchases decreased \$122 million in 2016 compared with 2015 primarily due to lower PLR prices of \$124 million. Energy purchases increased \$70 million in 2015 compared with 2014 primarily due to higher PLR volumes of \$73 million.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased by \$14 million in 2016 compared with 2015 and decreased \$70 million in 2015 compared with 2014 as a result of the June 1, 2015 PPL Energy Supply spinoff.

Other Operation and Maintenance

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

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	2016 vs. 2015	2015 vs. 2014
Act 129	\$ (15)	\$ 9
Universal service programs	3	6
Contractor-related expenses	7	7
Vegetation management	4	7
Payroll-related costs	(26)	2
Corporate service costs (a)	8	30
Storm costs	9	(11)
Bad debts	(4)	6
Environmental costs	(6)	5
Other	12	3
Total	\$ (8)	\$ 64

(a) The increase in 2015 compared with 2014 was due to higher corporate support costs charged to Electric Utilities primarily as a result of the spinoff of PPL Energy Supply.

Depreciation

Depreciation increased by \$39 million in 2016 compared with 2015, and by \$29 million in 2015 compared with 2014 primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Taxes, Other Than Income

Taxes, other than income increased by \$11 million in 2016 compared with 2015 and decreased by \$13 million in 2015 compared with 2014 primarily due to the settlement, in 2015, of a 2011 gross receipts tax audit that resulted in the reversal of \$17 million of previously recognized reserves.

Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Change in pre-tax income	\$ 58	\$ 1
Depreciation not normalized	(5)	2
Stock-based compensation (a)	(6)	—
Other	1	1
Total	\$ 48	\$ 4

(a) During 2016, PPL Electric recorded lower income tax expense related to the application of the new stock-based compensation accounting guidance. See Note 1 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information on income taxes.

Earnings

	2016	2015	2014
Net Income	\$ 340	\$ 252	\$ 263
Special item, gain (loss), after-tax	—	—	(2)

Earnings increased in 2016 compared with 2015 primarily due to higher base electricity rates for distribution effective January 1, 2016, and higher transmission margins from additional capital investments, partially offset by higher depreciation expense and the release of a gross receipts tax reserve in 2015.

Earnings decreased in 2015 compared with 2014 primarily due to higher other operation and maintenance expense and higher depreciation expense, partially offset by returns on additional transmission and distribution improvement capital investments and the release of a gross receipts tax reserve in 2015.

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

	2016 vs. 2015	2015 vs. 2014
Pennsylvania Gross Margins	\$ 177	\$ 65
Other operation and maintenance	2	(58)
Depreciation	(39)	(29)
Taxes, other than income	(14)	18
Other Income (Expense) - net	9	1
Interest Expense	1	(8)
Income Taxes	(48)	(2)
Special Item, after-tax	—	2
Net Income	<u>\$ 88</u>	<u>\$ (11)</u>

Margins

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

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

	2016			2015		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,156	\$ —	\$ 2,156	\$ 2,124	\$ —	\$ 2,124
Operating Expenses						
Energy purchases	535	—	535	657	—	657
Energy purchases from affiliate	—	—	—	14	—	14
Other operation and maintenance	108	491	599	114	493	607
Depreciation	—	253	253	—	214	214
Taxes, other than income	99	6	105	102	(8)	94
Total Operating Expenses	742	750	1,492	887	699	1,586
Total	<u>\$ 1,414</u>	<u>\$ (750)</u>	<u>\$ 664</u>	<u>\$ 1,237</u>	<u>\$ (699)</u>	<u>\$ 538</u>
				2014		
	PA Gross Margins	Other (a)	Operating Income (b)			
Operating Revenues	\$ 2,044	\$ —	\$ 2,044			
Operating Expenses						
Energy purchases	587	—	587			
Energy purchases from affiliate	84	—	84			
Other operation and maintenance	103	440	543			
Depreciation	—	185	185			
Taxes, other than income	98	9	107			
Total Operating Expenses	872	634	1,506			
Total	<u>\$ 1,172</u>	<u>\$ (634)</u>	<u>\$ 538</u>			

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

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating Revenues	\$ 3,141	\$ 3,115	\$ 3,168	\$ 26	\$ (53)
Operating Expenses					
Operation					
Fuel	791	863	965	(72)	(102)
Energy purchases	171	184	253	(13)	(69)
Other operation and maintenance	804	837	815	(33)	22
Depreciation	404	382	354	22	28
Taxes, other than income	62	57	52	5	5
Total Operating Expenses	2,232	2,323	2,439	(91)	(116)
Other Income (Expense) - net	(9)	(8)	(9)	(1)	1
Interest Expense	197	178	167	19	11
Interest Expense with Affiliate	17	3	—	14	3
Income Taxes	257	239	209	18	30
Net Income	\$ 429	\$ 364	\$ 344	\$ 65	\$ 20

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Base rates	\$ 68	\$ 64
Volumes	1	(85)
Fuel and other energy prices (a)	(81)	(113)
ECR	39	86
Other	(1)	(5)
Total	\$ 26	\$ (53)

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased \$72 million in 2016 compared with 2015 primarily due to a decrease in market prices for coal and natural gas.

Fuel decreased \$102 million in 2015 compared with 2014 due to a \$57 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a \$45 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased \$13 million in 2016 compared with 2015 primarily due to a \$9 million decrease in the market price of natural gas and a \$5 million decrease in natural gas volumes driven by milder weather during the first quarter of 2016.

Energy purchases decreased \$69 million in 2015 compared with 2014 primarily due to a \$38 million decrease in the market price for natural gas and a \$30 million decrease in natural gas volumes driven by milder weather during the fourth quarter of 2015.

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Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Plant operations and maintenance (a)	\$ (19)	\$ 9
Pension expense	(12)	14
Timing and scope of scheduled generation maintenance outages	(5)	(1)
Storm costs	(3)	(7)
Bad debts	(1)	(6)
Energy efficiency programs	5	(1)
Other	2	14
Total	\$ (33)	\$ 22

(a) Includes a \$29 million reduction of costs in 2016 due to the retirement of Cane Run and Green River coal units partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations.

Interest Expense

Interest expense increased \$33 million in 2016 compared with 2015 and increased \$14 million in 2015 compared with 2014 primarily due the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced with an affiliate in November 2015.

Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Higher pre-tax book income	\$ 32	\$ 19
Certain income tax valuation allowances (a)	(12)	12
Other	(2)	(1)
Total	\$ 18	\$ 30

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

See Note 5 to the Financial Statements for additional information on income taxes.

Earnings

	2016	2015	2014
Net Income	\$ 429	\$ 364	\$ 344
Special items, gains (losses), after-tax	—	(12)	—

Excluding special items, earnings increased in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015, returns on additional environmental capital investments and lower other operation and maintenance expense partially offset by higher interest expense.

Excluding special items, earnings increased in 2015 compared with 2014 primarily due to higher base rates and returns on additional environmental capital investments partially offset by higher other operation and maintenance expense, income taxes, financing costs and lower sales volume. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. The change in sales volume was due to milder weather during the fourth quarter of 2015.

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

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

Statement of Income Analysis

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating Revenues					
Retail and wholesale	\$ 1,406	\$ 1,407	\$ 1,445	\$ (1)	\$ (38)
Electric revenue from affiliate	24	37	88	(13)	(51)
Total Operating Revenues	1,430	1,444	1,533	(14)	(89)
Operating Expenses					
Operation					
Fuel	301	329	404	(28)	(75)
Energy purchases	153	166	230	(13)	(64)
Energy purchases from affiliates	14	20	14	(6)	6
Other operation and maintenance	355	377	379	(22)	(2)
Depreciation	170	162	157	8	5
Taxes, other than income	32	28	25	4	3
Total Operating Expenses	1,025	1,082	1,209	(57)	(127)
Other Income (Expense) - net	(5)	(6)	(3)	1	(3)
Interest Expense	71	57	49	14	8
Income Taxes	126	114	103	12	11
Net Income	\$ 203	\$ 185	\$ 169	\$ 18	\$ 16

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Base rates	\$ 4	\$ 3
Volumes	(8)	(81)
Fuel and other energy prices (a)	(36)	(51)
ECR	26	51
Other	—	(11)
Total	\$ (14)	\$ (89)

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased \$28 million in 2016 compared with 2015 primarily due to a \$24 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Fuel decreased \$75 million in 2015 compared with 2014 due to a \$65 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a \$10 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased \$13 million in 2016 compared with 2015 primarily due to a \$9 million decrease in the market price of natural gas and a \$5 million decrease in natural gas volumes driven by milder weather during the first quarter of 2016.

Energy purchases decreased \$64 million in 2015 compared with 2014 primarily due to a \$38 million decrease in the market price for natural gas and a \$30 million decrease in natural gas volumes driven by milder weather during the fourth quarter of 2015.

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Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Plant operations and maintenance (a)	\$ (21)	\$ (1)
Pension expense	(6)	6
Timing and scope of scheduled generation maintenance outages	3	(3)
Storm costs	(2)	(4)
Bad debts	—	(3)
Energy efficiency programs	2	(1)
Other	2	4
Total	<u>\$ (22)</u>	<u>\$ (2)</u>

(a) Includes a \$23 million reduction of costs in 2016 due to the retirement of Cane Run coal units.

Interest Expense

Interest expense increased \$14 million in 2016 compared with 2015 and increased \$8 million in 2015 compared with 2014 primarily due to the issuance of \$300 million of incremental First Mortgage Bonds in September 2015 and higher interest rates on \$250 million of First Mortgage Bonds refinanced by LG&E.

Earnings

	2016	2015	2014
Net Income	\$ 203	\$ 185	\$ 169
Special items, gains (losses), after-tax (a)	—	—	—

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

Earnings in 2016 compared with 2015 increased primarily due to returns on additional environmental capital investments and lower other operation and maintenance expense, partially offset by higher interest expense.

Earnings in 2015 compared with 2014 increased primarily due to returns on additional environmental capital investments partially offset by higher income taxes, financing costs and lower sales volume. The change in sales volume was due to milder weather during the fourth quarter of 2015.

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

	2016 vs. 2015	2015 vs. 2014
Margins	\$ 20	\$ 34
Other operation and maintenance	23	(3)
Depreciation	3	9
Taxes, other than income	(3)	(2)
Other Income (Expense) - net	1	(3)
Interest Expense	(14)	(8)
Income Taxes	(12)	(11)
Net Income	<u>\$ 18</u>	<u>\$ 16</u>

Margins

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

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The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended December 31.

	2016			2015		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,430	\$ —	\$ 1,430	\$ 1,444	\$ —	\$ 1,444
Operating Expenses						
Fuel	301	—	301	329	—	329
Energy purchases	167	—	167	186	—	186
Other operation and maintenance	43	312	355	42	335	377
Depreciation	29	141	170	18	144	162
Taxes, other than income	3	29	32	2	26	28
Total Operating Expenses	543	482	1,025	577	505	1,082
Total	\$ 887	\$ (482)	\$ 405	\$ 867	\$ (505)	\$ 362

	2014		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,533	\$ —	\$ 1,533
Operating Expenses			
Fuel	404	—	404
Energy purchases	244	—	244
Other operation and maintenance	47	332	379
Depreciation	4	153	157
Taxes, other than income	1	24	25
Total Operating Expenses	700	509	1,209
Total	\$ 833	\$ (509)	\$ 324

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change	
				2016 vs. 2015	2015 vs. 2014
Operating Revenues					
Retail and wholesale	\$ 1,735	\$ 1,708	\$ 1,723	\$ 27	\$ (15)
Electric revenue from affiliate	14	20	14	(6)	6
Total Operating Revenues	1,749	1,728	1,737	21	(9)
Operating Expenses					
Operation					
Fuel	490	534	561	(44)	(27)
Energy purchases	18	18	23	—	(5)
Energy purchases from affiliates	24	37	88	(13)	(51)
Other operation and maintenance	424	435	408	(11)	27
Depreciation	234	220	197	14	23
Taxes, other than income	30	29	27	1	2
Total Operating Expenses	1,220	1,273	1,304	(53)	(31)
Other Income (Expense) - net	(5)	1	(1)	(6)	2
Interest Expense	96	82	77	14	5
Income Taxes	163	140	135	23	5
Net Income	\$ 265	\$ 234	\$ 220	\$ 31	\$ 14

Operating Revenue

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

	2016 vs. 2015	2015 vs. 2014
Base rates	\$ 64	\$ 61
Volumes	(8)	(28)
Fuel and other energy prices (a)	(47)	(68)
ECR	13	35
Other	(1)	(9)
Total	<u>\$ 21</u>	<u>\$ (9)</u>

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased \$44 million in 2016 compared with 2015 primarily due to a \$46 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Fuel decreased \$27 million in 2015 compared with 2014 due to a \$35 million decrease in commodity costs, as a result of a decrease in market prices for coal, partially offset by an \$8 million increase in natural gas volumes driven by Cane Run Unit 7 being placed in-service in June 2015.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased \$13 million in 2016 compared with 2015 primarily due to decreased volumes driven by milder weather in the first quarter of 2016.

Energy purchases from affiliate decreased \$51 million in 2015 compared with 2014 primarily due to decreased volumes driven by Cane Run Unit 7 being placed in-service in June 2015.

Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Timing and scope of scheduled generation maintenance outages	\$ (8)	\$ 2
Pension expense	(8)	10
Plant operations and maintenance	2	10
Bad debts	(1)	(3)
Storm costs	(1)	(3)
Energy efficiency programs	3	—
Other	2	11
Total	<u>\$ (11)</u>	<u>\$ 27</u>

Depreciation

Depreciation increased \$14 million in 2016 compared with 2015 and increased \$23 million in 2015 compared with 2014 primarily due to additional assets placed into service, net of retirements.

Income Taxes

Income taxes increased \$23 million in 2016 compared with 2015 and increased \$5 million in 2015 compared with 2014 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

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Earnings

	2016	2015	2014
Net Income	\$ 265	\$ 234	\$ 220
Special items, gains (losses), after tax (a)	—	—	—

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

Earnings in 2016 compared with 2015 increased primarily due to higher base electricity rates effective July 1, 2015 and lower other operation and maintenance expense partially offset by higher interest expense.

Earnings in 2015 compared with 2014 increased primarily due to higher base rates and returns on additional environmental capital investments partially offset by higher other operation and maintenance expense, depreciation expense and lower sales volume. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. The change in sales volume was due to milder weather during the fourth quarter of 2015.

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

	2016 vs. 2015	2015 vs. 2014
Margins	\$ 63	\$ 54
Other operation and maintenance	19	(21)
Depreciation	(7)	(10)
Taxes, Other than income	(1)	(1)
Other Income (Expense) - net	(6)	2
Interest Expense	(14)	(5)
Income Taxes	(23)	(5)
Net Income	<u>\$ 31</u>	<u>\$ 14</u>

Margins

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

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

	2016			2015		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,749	\$ —	\$ 1,749	\$ 1,728	\$ —	\$ 1,728
Operating Expenses						
Fuel	490	—	490	534	—	534
Energy purchases	42	—	42	55	—	55
Other operation and maintenance	66	358	424	58	377	435
Depreciation	27	207	234	20	200	220
Taxes, other than income	2	28	30	2	27	29
Total Operating Expenses	<u>627</u>	<u>593</u>	<u>1,220</u>	<u>669</u>	<u>604</u>	<u>1,273</u>
Total	<u>\$ 1,122</u>	<u>\$ (593)</u>	<u>\$ 529</u>	<u>\$ 1,059</u>	<u>\$ (604)</u>	<u>\$ 455</u>

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	2014		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,737	\$ —	\$ 1,737
Operating Expenses			
Fuel	561	—	561
Energy purchases	111	—	111
Other operation and maintenance	52	356	408
Depreciation	7	190	197
Taxes, other than income	1	26	27
Total Operating Expenses	732	572	1,304
Total	\$ 1,005	\$ (572)	\$ 433

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Financial Condition

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

Liquidity and Capital Resources

(All Registrants)

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

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Notes payable with affiliates		—	163	—	—
December 31, 2015					
Cash and cash equivalents	\$ 836	\$ 47	\$ 30	\$ 19	\$ 11
Short-term debt	916	—	265	142	48
Notes payable with affiliates		—	54	—	—
December 31, 2014					
Cash and cash equivalents	\$ 1,399	\$ 214	\$ 21	\$ 10	\$ 11
Short-term investments	120	—	—	—	—
Short-term debt	836	—	575	264	236
Notes payables with affiliates		—	41	—	—

(a) At December 31, 2016, \$5 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

(PPL)

The Statements of Cash Flows separately report the cash flows of the discontinued operations. The "Operating Activities", "Investing Activities" and "Financing Activities" sections below include only the cash flows of continuing operations.

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(All Registrants)

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

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2016					
Operating activities	\$ 2,890	\$ 872	\$ 1,027	\$ 482	\$ 606
Investing activities	(2,918)	(1,130)	(790)	(439)	(349)
Financing activities	(439)	224	(254)	(57)	(261)
2015					
Operating activities	\$ 2,272	\$ 602	\$ 1,063	\$ 554	\$ 608
Investing activities	(3,439)	(1,108)	(1,203)	(689)	(512)
Financing activities	482	339	149	144	(96)
2014					
Operating activities	\$ 2,941	\$ 613	\$ 999	\$ 371	\$ 566
Investing activities	(3,826)	(791)	(1,191)	(656)	(603)
Financing activities	262	367	178	287	27
2016 vs. 2015 Change					
Operating activities	\$ 618	\$ 270	\$ (36)	\$ (72)	\$ (2)
Investing activities	521	(22)	413	250	163
Financing activities	(921)	(115)	(403)	(201)	(165)
2015 vs. 2014 Change					
Operating activities	\$ (669)	\$ (11)	\$ 64	\$ 183	\$ 42
Investing activities	387	(317)	(12)	(33)	91
Financing activities	220	(28)	(29)	(143)	(123)

Operating Activities

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

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2016 vs. 2015					
Change - Cash Provided (Used):					
Net income	\$ 299	\$ 88	\$ 65	\$ 18	\$ 31
Non-cash components	195	40	66	20	(20)
Working capital	47	101	(206)	(100)	(51)
Defined benefit plan funding	72	33	(15)	(20)	1
Other operating activities	5	8	54	10	37
Total	<u>\$ 618</u>	<u>\$ 270</u>	<u>\$ (36)</u>	<u>\$ (72)</u>	<u>\$ (2)</u>
2015 vs. 2014					
Change - Cash Provided (Used):					
Net income	\$ 166	\$ (11)	\$ 20	\$ 16	\$ 14
Non-cash components	(280)	181	(184)	21	(52)
Working capital	(341)	(148)	335	190	152
Defined benefit plan funding	(115)	(10)	(25)	(13)	(16)
Other operating activities	(99)	(23)	(82)	(31)	(56)
Total	<u>\$ (669)</u>	<u>\$ (11)</u>	<u>\$ 64</u>	<u>\$ 183</u>	<u>\$ 42</u>

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(PPL)

PPL had a \$618 million increase in cash provided by operating activities from continuing operations in 2016 compared with 2015.

- Net income improved by \$299 million between the periods. This included an additional \$195 million of net non-cash charges, including a \$132 million increase in deferred income taxes and \$96 million of lower unrealized gains on hedging activity (primarily due to the settlement of hedges in the third quarter of 2016) partially offset by a \$96 million increase in defined benefit plan income (primarily due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate for the U.K. pension plans).
- The \$47 million increase in cash from changes in working capital was primarily due to an increase in taxes payable (due to timing of payments) and an increase in accounts payable (primarily due to timing of payments) partially offset by an increase in unbilled revenues (primarily due to favorable weather compared to December 2015), an increase in net regulatory assets/liabilities (due to timing of rate recovery mechanisms) and an increase in accounts receivable (primarily due to increased volumes and favorable weather in 2016).
- Defined benefit plan funding was \$72 million lower in 2016.

PPL had a \$669 million decrease in cash from operating activities from continuing operations in 2015 compared with 2014.

- Net income improved by \$166 million between the periods, but included a decrease in net non-cash charges of \$280 million. These net non-cash charges included a \$238 million decrease in deferred income taxes and \$65 million of changes to the WPD line loss accrual. These decreases in non-cash charges were partially offset by \$110 million of lower unrealized gains on hedging activities. The net \$114 million decrease from net income and non-cash adjustments between the periods was primarily due to lower margins from the U.K. Regulated segment, partially offset by higher margins from the Kentucky and Pennsylvania Regulated segments.
- The \$341 million decrease in cash from changes in working capital was primarily due to a decrease in taxes payable (primarily due to a decrease in current income tax expense in 2015) and a decrease in accounts payable (primarily due to timing of fuel purchases and payments and unfavorable weather in 2015) partially offset by a decrease in accounts receivable (primarily due to unfavorable weather in 2015).
- The \$99 million decrease in cash provided by other operating activities was primarily due to payments of \$101 million for the settlement in 2015 of forward starting interest rate swaps.

(PPL Electric)

PPL Electric had a \$270 million increase in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$88 million between the periods. This included an additional \$40 million of net non-cash benefits primarily due to a \$39 million increase in depreciation expense (primarily due to the replacement of aging infrastructure and to ensure system reliability).
- The \$101 million increase in cash from changes in working capital was primarily due to an increase in accounts payable (primarily due to timing of payments), an increase in taxes payable (primarily due to timing of payments) and a decrease in prepayments (primarily due to higher tax payments in 2015) partially offset by an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), an increase in unbilled revenues (primarily due to higher volumes and favorable weather compared to December 2015) and an increase in accounts receivable.
- Pension funding was \$33 million lower in 2016.

PPL Electric had an \$11 million decrease in cash provided by operating activities in 2015 compared with 2014.

- Net income decreased by \$11 million between the periods and included an additional \$181 million of net non-cash charges primarily due to increases in deferred tax expense and depreciation.
- The \$148 million decrease in cash from changes in working capital was partially due to a decrease in taxes payable (primarily due to an increase in current income tax benefits in 2015) and a decrease in accounts payable (primarily due to milder weather and lower energy prices in December 2015), partially offset by a decrease in accounts receivable (primarily due to improved collection performance).

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- Pension funding was \$10 million higher in 2015.

(LKE)

LKE had a \$36 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$65 million and included an increase of \$66 million of net non-cash charges primarily due to a \$55 million increase in deferred income taxes and a \$22 million increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from PPL for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and a decrease in taxes payable due to the timing of payments, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$15 million higher in 2016.
- The increase in cash from LKE's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

LKE had a \$64 million increase in cash provided by operating activities in 2015 compared with 2014.

- LKE's non-cash components of net income included a \$213 million decrease in deferred income taxes, partially offset by a \$28 million increase in depreciation due to additional assets in service in 2015. Deferred income taxes were lower in 2015 as a large portion of the effect of accelerated tax depreciation did not result in cash as a result of the Federal net operating losses.
- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from PPL in 2015 for the use of excess tax depreciation deductions in 2014, decreases in accounts receivable and unbilled revenues due to milder weather in December 2015, a decrease in coal inventory as a result of plant retirements, and a decrease in natural gas stored underground due to lower gas prices in 2015, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.
- The decrease in cash from LKE's other operating activities was driven primarily by \$88 million in payments for the settlement of interest rate swaps.

(LG&E)

LG&E had a \$72 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$18 million and included an increase of \$20 million of net non-cash charges primarily due to a \$21 million increase in deferred income taxes.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and an increase in accounts receivable from affiliates due to higher intercompany settlements associated with energy sales and inventory, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$20 million higher in 2016.
- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

LG&E had a \$183 million increase in cash provided by operating activities in 2015 compared with 2014.

- LG&E's non-cash components of net income included an \$8 million increase in deferred income taxes and a \$5 million increase in depreciation due to additional assets in service in 2015.
- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from LKE in 2015 for the use of excess tax depreciation deductions in 2014, a decrease in accounts receivable from affiliates due to lower fuel costs for jointly owned units compared to an increase in the prior

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year, a decrease in accounts receivable due to milder weather in December 2015 compared to an increase in the prior year, a decrease in coal inventory as a result of the retirement of Cane Run coal units, and a decrease in natural gas stored underground due to lower gas prices in 2015, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments compared to an increase in the prior year.

- The decrease in cash from LG&E's other operating activities was driven primarily by \$44 million in payments for the settlement of interest rate swaps.

(KU)

KU had a \$2 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$31 million and included a decrease of \$20 million of net non-cash charges primarily due to a \$34 million decrease in deferred income taxes, partially offset by a \$14 million increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, partially offset by an increase in accounts payable to affiliates due to higher intercompany settlements associated with energy purchases and inventory, and an increase in taxes payable due to the timing of payments.
- The increase in cash from KU's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

KU had a \$42 million increase in cash provided by operating activities in 2015 compared with 2014.

- KU's non-cash components of net income included a \$64 million decrease in deferred income taxes, partially offset by a \$23 million increase in depreciation due to additional assets in service in 2015. Deferred income taxes were lower in 2015 as a large portion of the effect of accelerated tax depreciation did not result in cash as a result of the Federal net operating losses.
- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from LKE in 2015 for the use of excess tax depreciation deductions in 2014, a decrease in coal inventory as a result of the retirement of Green River coal units, and decreases in accounts receivable and unbilled revenues due to milder weather in December 2015, partially offset by a decrease in accounts payable to affiliates compared to an increase in the prior year due to lower fuel costs for jointly owned units and a decrease in accounts payable due to the timing of fuel purchases and payments.
- The decrease in cash from KU's other operating activities was driven primarily by \$44 million in payments for the settlement of interest rate swaps.

Investing Activities

(All Registrants)

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

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2016 vs. 2015					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ 613	\$ (28)	\$ 419	\$ 250	\$ 169
Investment activity, net	(134)	—	—	—	—
Other investing activities	42	6	(6)	—	(6)
Total	<u>\$ 521</u>	<u>\$ (22)</u>	<u>\$ 413</u>	<u>\$ 250</u>	<u>\$ 163</u>

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	PPL	PPL Electric	LKE	LG&E	KU
2015 vs. 2014					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ 141	\$ (166)	\$ 52	\$ (33)	\$ 85
Notes receivable with affiliates activity, net	—	(150)	(70)	—	—
Restricted cash and cash equivalent activity	(11)	—	—	—	—
Investment activity, net	256	—	—	—	—
Other investing activities	1	(1)	6	—	6
Total	\$ 387	\$ (317)	\$ (12)	\$ (33)	\$ 91

(PPL)

For PPL, in 2016 compared with 2015, lower project expenditures at WPD, LG&E and KU were partially offset by higher project expenditures at PPL Electric. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures for LG&E was primarily driven by the completion of the environmental air projects at LG&E's Mill Creek Plant. The decrease in expenditures for KU was primarily driven by the completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant. The increase in expenditures for PPL Electric was primarily due to the Northern Lehigh and Greater Scranton transmission reliability projects and other various transmission and distribution projects, partially offset by the completion of the Northeast Pocono reliability project and Susquehanna-Roseland transmission project.

The change in "Investment activity, net" for 2016 compared with 2015 resulted from PPL receiving \$136 million during 2015 for the sale of short-term investments.

For PPL, in 2015 compared with 2014, lower project expenditures at WPD and KU were partially offset by higher project expenditures at PPL Electric and LG&E. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability associated with the end of the DPCR5 price control period and changes in foreign currency exchange rates. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at KU's Ghent and E.W. Brown plants. The increase in expenditures for PPL Electric was primarily due to the Northeast Pocono reliability project, smart grid projects and other various projects, partially offset by the completion of the Susquehanna-Roseland transmission project. The increase in expenditures for LG&E was primarily due to environmental air projects at LG&E's Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7.

The change in "Investment activity, net" for 2015 compared with 2014 resulted from PPL receiving \$136 million during 2015 for the sale of short-term investments and paying \$120 million during 2014 for the purchase of short-term investments.

(PPL Electric)

For PPL Electric, in 2016 compared with 2015, the increase in expenditures was primarily due to the Northern Lehigh and Greater Scranton transmission reliability projects and other various transmission and distribution projects, which was partially offset by the completion of the Northeast Pocono reliability project and the Susquehanna-Roseland transmission project.

For PPL Electric, in 2015 compared with 2014, the increase in expenditures was primarily due to the Northeast Pocono reliability project, smart grid projects and other various projects, partially offset by the completion of the Susquehanna-Roseland transmission project.

The changes in "Notes receivable with affiliates activity, net" resulted from proceeds of \$150 million received in 2014 from repayments on a note extended in 2013.

(LKE)

For LKE, in 2016 compared with 2015, cash used in investing activities decreased primarily due to lower PP&E expenditures. The decrease in expenditures for LG&E was primarily driven by completion of the environmental air projects at LG&E's Mill Creek plant. The decrease in expenditures for KU was primarily driven by completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant.

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For LKE, in 2015 compared with 2014, cash used in investing activities increased as a result of receiving payment from PPL in 2014 for the notes receivable issued in 2013, partially offset by lower PP&E expenditures. An increase in expenditures for LG&E was primarily due to higher expenditures for environmental air projects at the Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7. A decrease in expenditures for KU was primarily due to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at the Ghent and the E.W. Brown plants.

(LG&E)

For LG&E, in 2016 compared with 2015, cash used in investing activities decreased due to lower PP&E expenditures driven by completion of the environmental air projects at the Mill Creek plant.

For LG&E, in 2015 compared with 2014, cash used in investing activities increased primarily due to higher expenditures for environmental air projects at the Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015.

(KU)

For KU, in 2016 compared with 2015, cash used in investing activities decreased primarily due to lower PP&E expenditures driven by completion of the environmental air projects at the Ghent plant and the CCR project at the E.W. Brown plant.

For KU, in 2015 compared with 2014, cash used in investing activities decreased primarily due to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at the Ghent and the E.W. Brown plants.

(All Registrants)

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2016 through 2020.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2016 vs. 2015					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ (824)	\$ (248)	\$ (175)	\$ (325)	\$ (250)
Debt issuance/retirement, affiliate		—	(400)	—	—
Stock issuances/redemptions, net	(59)	—	—	—	—
Dividends	(26)	(107)	—	(9)	(95)
Capital contributions/distributions, net		(55)	(161)	(19)	20
Changes in net short-term debt (a)	(65)	295	326	149	156
Other financing activities	53	—	7	3	4
Total	<u>\$ (921)</u>	<u>\$ (115)</u>	<u>\$ (403)</u>	<u>\$ (201)</u>	<u>\$ (165)</u>

	PPL	PPL Electric	LKE	LG&E	KU
2015 vs. 2014					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ 1,177	\$ (38)	\$ 150	\$ 300	\$ 250
Debt issuance/retirement, affiliate		—	400	—	—
Stock issuances/redemptions, net	(871)	—	—	—	—
Dividends	(37)	(23)	—	(7)	(5)
Capital contributions/distributions, net		12	94	(67)	(91)
Changes in net short-term debt (a)	(53)	20	(668)	(366)	(274)
Other financing activities	4	1	(5)	(3)	(3)
Total	<u>\$ 220</u>	<u>\$ (28)</u>	<u>\$ (29)</u>	<u>\$ (143)</u>	<u>\$ (123)</u>

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(a) Includes net increase (decrease) in notes payable with affiliates.

(PPL)

For PPL, in 2016 compared with 2015, \$921 million less cash from financing activities was required primarily due to improvements in cash from operations of \$618 million.

For PPL, in 2015 compared with 2014, \$220 million additional cash from financing activities was required including the WPD, LG&E and KU long-term debt issuances in 2015, partially offset by lower common stock issuances in 2015.

(PPL Electric)

For PPL Electric, in 2016 compared with 2015, \$115 million less cash from financing activities was required to support its significant capital expenditure program primarily due to improvements in cash from operations of \$270 million.

For PPL Electric, in 2015 compared with 2014, \$28 million less cash from financing activities was required primarily due to the use of cash on hand which helped support the significant capital expenditure program.

(LKE)

For LKE, in 2016 compared with 2015, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general corporate expenditures.

For LKE, in 2015 compared with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt, partially offset by the \$550 million of additional long-term debt issued by LG&E and KU in 2015 and lower distributions to PPL.

(LG&E)

For LG&E, in 2016 compared with 2015, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general corporate expenditures.

For LG&E, in 2015 compared with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt and lower capital contributions from LKE, partially offset by the \$300 million of additional long-term debt issued in 2015.

(KU)

For KU, in 2016 compared with 2015, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general corporate expenditures.

For KU, in 2015 compared with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt and lower capital contributions from LKE, partially offset by the \$250 million of additional long-term debt issued in 2015.

(All Registrants)

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

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2016 included:

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	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
Cash Flow Impact:			
PPL	\$ 1,342	\$ 930	\$ 144
PPL Electric	224	224	
LKE	221	246	
LG&E	125	150	
KU	96	96	

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

See Note 7 to the Financial Statements for additional information about long-term debt.

ATM Program (PPL)

During 2016, PPL issued 710 thousand shares of common stock under the program at an average price of \$35.23 per share, receiving net proceeds of \$25 million. See Note 7 to the Financial Statements for additional information about the ATM Program.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2017.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At December 31, 2016, the total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 37	\$ 1,363
PPL Electric Credit Facility	650	—	296	354
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	169	331
KU Credit Facilities	598	—	214	384
Total LKE Consolidated	1,173	—	383	790
Total U.S. Credit Facilities (a) (b) (c)	\$ 3,223	\$ —	\$ 716	\$ 2,507
Total U.K. Credit Facilities (c) (d) (e)	£ 1,055	£ 279	£ —	£ 775

- (a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.
- (b) The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric 7%, LKE - 21%, LG&E - 7% and KU - 37%.
- (c) Each company pays customary fees under its respective syndicated credit facility, as does KU under its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

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(e) The amounts borrowed at December 31, 2016, include a USD-denominated borrowing of \$200 million and GBP-denominated borrowings of £119 million, which equated to \$148 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £161 million as of the date borrowed. At December 31, 2016, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$969 million.

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

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2016, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 163	\$ —	\$ 62
LG&E Money Pool (a)	500	—	169	331
KU Money Pool (a)	500	—	16	484

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

Commercial Paper (All Registrants)

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

	December 31, 2016		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 20	\$ 980
PPL Electric	400	295	105
LG&E	350	169	181
KU	350	16	334
Total LKE	700	185	515
Total PPL	\$ 2,100	\$ 500	\$ 1,600

In January 2017, PPL Electric's commercial paper program capacity was increased to \$650 million.

See Note 7 to the Financial Statements for further discussion of the Registrants' commercial paper programs.

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are currently authorized to incur, subject to market conditions, up to approximately \$3.4 billion of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

PPL plans to issue, subject to market conditions, up to \$350 million of common stock in 2017.

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(PPL Electric)

PPL Electric is currently authorized to incur, subject to market conditions, up to approximately \$500 million of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures and for general corporate purposes. PPL Electric currently plans to remarket, subject to market conditions, \$224 million of its bonds with put dates in 2017.

(LKE, LG&E and KU)

LG&E is currently authorized to incur, subject to market conditions and regulatory approvals, up to approximately \$400 million of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, \$194 million of its bonds with put dates in 2017.

KU is currently authorized to incur, subject to market conditions and regulatory approvals, up to approximately \$100 million of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures.

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

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

Forecasted Uses of Cash

(All Registrants)

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

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2017 through 2021. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected				
		2017	2018	2019	2020	2021
PPL						
Construction expenditures (a) (b)						
Generating facilities	\$ 862	\$ 220	\$ 212	\$ 195	\$ 97	\$ 138
Distribution facilities	8,849	1,855	1,743	1,761	1,732	1,758
Transmission facilities	4,077	900	881	875	859	562
Environmental	1,435	329	438	210	220	238
Other	664	137	215	189	66	57
Total Capital Expenditures	<u>\$ 15,887</u>	<u>\$ 3,441</u>	<u>\$ 3,489</u>	<u>\$ 3,230</u>	<u>\$ 2,974</u>	<u>\$ 2,753</u>
PPL Electric (a) (b)						
Distribution facilities	\$ 1,908	\$ 434	\$ 389	\$ 390	\$ 348	\$ 347
Transmission facilities	3,283	768	737	675	704	399
Total Capital Expenditures	<u>\$ 5,191</u>	<u>\$ 1,202</u>	<u>\$ 1,126</u>	<u>\$ 1,065</u>	<u>\$ 1,052</u>	<u>\$ 746</u>

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	Total	Projected				
		2017	2018	2019	2020	2021
LKE (b)						
Generating facilities	\$ 862	\$ 220	\$ 212	\$ 195	\$ 97	\$ 138
Distribution facilities	1,652	297	339	348	325	343
Transmission facilities	795	132	144	200	156	163
Environmental	1,435	329	438	210	220	238
Other	636	129	209	184	61	53
Total Capital Expenditures	\$ 5,380	\$ 1,107	\$ 1,342	\$ 1,137	\$ 859	\$ 935

LG&E (b)						
Generating facilities	\$ 422	\$ 138	\$ 104	\$ 81	\$ 36	\$ 63
Distribution facilities	1,090	188	223	228	216	235
Transmission facilities	222	24	32	74	43	49
Environmental	645	150	201	78	95	121
Other	310	60	102	92	28	28
Total Capital Expenditures	\$ 2,689	\$ 560	\$ 662	\$ 553	\$ 418	\$ 496

KU (b)						
Generating facilities	\$ 440	\$ 82	\$ 108	\$ 114	\$ 61	\$ 75
Distribution facilities	562	109	116	120	109	108
Transmission facilities	573	109	112	126	113	113
Environmental	789	178	237	131	126	117
Other	328	69	106	94	32	27
Total Capital Expenditures	\$ 2,692	\$ 547	\$ 679	\$ 585	\$ 441	\$ 440

- (a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$86 million for PPL and \$67 million for PPL Electric.
(b) The 2017 total excludes amounts included in accounts payable as of December 31, 2016.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets. This table also includes LKE's environmental projects related to existing and proposed EPA compliance standards excluding the Clean Power Plan (actual costs may be significantly lower or higher depending on the final requirements and market conditions; most environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Note 6 to the Financial Statements for information on LG&E's and KU's ECR mechanism and CPCN filing.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2017 with proceeds from the sources noted below.

Source	PPL	PPL Electric	LKE	LG&E	KU
Issuance of common stock	X				
Issuance of long-term debt securities	X	X	X	X	X
Equity contributions from parent/member		X	X	X	X
Short-term debt	X	X	X	X	X

X = Expected funding source.

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Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2016, estimated contractual cash obligations were as follows:

	<u>Total</u>	<u>2017</u>	<u>2018 - 2019</u>	<u>2020 - 2021</u>	<u>After 2021</u>
PPL					
Long-term Debt (a)	\$ 18,399	\$ 518	\$ 484	\$ 2,412	\$ 14,985
Interest on Long-term Debt (b)	14,556	808	1,577	1,502	10,669
Operating Leases (c)	118	31	42	19	26
Purchase Obligations (d)	3,596	1,050	1,179	579	788
Other Long-term Liabilities Reflected on the Balance Sheet (e)	878	377	428	73	—
Total Contractual Cash Obligations	<u>\$ 37,547</u>	<u>\$ 2,784</u>	<u>\$ 3,710</u>	<u>\$ 4,585</u>	<u>\$ 26,468</u>
PPL Electric					
Long-term Debt (a)	\$ 2,864	\$ 224	\$ —	\$ 500	\$ 2,140
Interest on Long-term Debt (b)	2,441	120	237	232	1,852
Unconditional Power Purchase Obligations	106	24	48	34	—
Total Contractual Cash Obligations	<u>\$ 5,411</u>	<u>\$ 368</u>	<u>\$ 285</u>	<u>\$ 766</u>	<u>\$ 3,992</u>
LKE					
Long-term Debt (a)	\$ 5,110	\$ 194	\$ 234	\$ 1,225	\$ 3,457
Interest on Long-term Debt (b)	3,336	196	389	350	2,401
Operating Leases (c)	93	24	35	15	19
Coal and Natural Gas Purchase Obligations (f)	2,165	575	955	409	226
Unconditional Power Purchase Obligations (g)	705	29	57	58	561
Construction Obligations (h)	270	258	9	2	1
Pension Benefit Plan Obligations (e)	18	18	—	—	—
Other Obligations	297	111	110	76	—
Total Contractual Cash Obligations	<u>\$ 11,994</u>	<u>\$ 1,405</u>	<u>\$ 1,789</u>	<u>\$ 2,135</u>	<u>\$ 6,665</u>
LG&E					
Long-term Debt (a)	\$ 1,634	\$ 194	\$ 138	\$ —	\$ 1,302
Interest on Long-term Debt (b)	1,257	61	118	112	966
Operating Leases (c)	50	15	21	6	8
Coal and Natural Gas Purchase Obligations (f)	912	248	416	163	85
Unconditional Power Purchase Obligations (g)	488	20	39	40	389
Construction Obligations (h)	147	143	3	1	—
Other Obligations	138	45	53	40	—
Total Contractual Cash Obligations	<u>\$ 4,626</u>	<u>\$ 726</u>	<u>\$ 788</u>	<u>\$ 362</u>	<u>\$ 2,750</u>
KU					
Long-term Debt (a)	\$ 2,351	\$ —	\$ 96	\$ 500	\$ 1,755
Interest on Long-term Debt (b)	1,820	92	186	170	1,372
Operating Leases (c)	42	9	14	9	10
Coal and Natural Gas Purchase Obligations (f)	1,252	327	538	246	141
Unconditional Power Purchase Obligations (g)	217	9	18	18	172
Construction Obligations (h)	105	102	2	1	—
Pension Benefit Plan Obligations (e)	18	18	—	—	—
Other Obligations	117	40	45	32	—
Total Contractual Cash Obligations	<u>\$ 5,922</u>	<u>\$ 597</u>	<u>\$ 899</u>	<u>\$ 976</u>	<u>\$ 3,450</u>

- (a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 9 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as

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applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.

- (e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2013 and March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2017 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
- (f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
- (g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
- (h) Represents construction commitments, including commitments for LG&E's and KU's Trimble County landfill construction, LG&E's Paddy's Run plant demolition, Ohio Falls refurbishment and completion of the Mill Creek environmental air project, which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2016, PPL declared its quarterly common stock dividend, payable January 3, 2017, at 38 cents per share (equivalent to \$1.52 per annum). On February 1, 2017, PPL announced that the company is increasing its common stock dividend to 39.5 cents per share on a quarterly basis (equivalent to \$1.58 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors.

See Note 8 to the Financial Statements for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2016, no interest payments were deferred.

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

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

(All Registrants)

See Note 7 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

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

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2016.

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

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

(PPL)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Capital Funding's \$1.0 billion commercial paper program.

In May 2016, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$650 million 3.10% Senior Notes due 2026.

In June 2016, S&P assigned a long-term issuer rating of A- and a short-term issuer rating of A-2 to PPL Capital Funding.

(PPL Electric)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$400 million commercial paper program.

In February 2016, Moody's and S&P assigned ratings of A1 and A to LCIDA's \$116 million 0.90% Pollution Control Revenue Refunding Bonds due 2029 and \$108 million 0.90% Pollution Control Revenue Refunding Bonds due 2027, issued on behalf of PPL Electric.

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

(LG&E)

In September 2016, Moody's and S&P assigned ratings of A1 and A to the \$125 million County of Trimble, Kentucky Pollution Control Revenue Refunding Bonds, Series 2016 A (Louisville Gas and Electric Company Project) due 2044, issued on behalf of LG&E.

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(KU)

In August 2016, Moody's and S&P assigned ratings of A1 and A to the \$96 million County of Carroll, Kentucky Pollution Control Revenue Refunding Bonds, Series 2016 A (Kentucky Utilities Company Project) due 2042, issued on behalf of KU.

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £4.4 billion (approximately \$5.5 billion) nominal value at December 31, 2016.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2016.

Guarantees for Subsidiaries *(PPL)*

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

Off-Balance Sheet Arrangements *(All Registrants)*

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

Risk Management

Market Risk

(All Registrants)

See Notes 1, 16, and 17 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to

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volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at December 31.

	2016				2015			
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	
PPL								
Cash flow hedges								
Interest rate swaps (c)	\$ —	\$ —	\$ —		\$ 300	\$ (24)	\$ (7)	
Cross-currency swaps (d)	802	191	(90)	2028	1,262	87	(152)	
Economic hedges								
Interest rate swaps (e)	147	(32)	(2)	2033	179	(48)	(2)	
LKE								
Economic hedges								
Interest rate swaps (e)	147	(32)	(2)	2033	179	(48)	(2)	
LG&E								
Economic hedges								
Interest rate swaps (e)	147	(32)	(2)	2033	179	(48)	(2)	

(a) Includes accrued interest, if applicable.

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

(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recovered through regulated rates, and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2016 and 2015 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2016	2015
PPL	\$ 590	\$ 710
PPL Electric	138	152
LKE	182	192
LG&E	66	69
KU	100	104

Foreign Currency Risk (PPL)

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

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The following foreign currency hedges were outstanding at December 31.

	2016				2015			
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Net investment hedges (b)	£ —	\$ —	\$ —		£ 50	\$ 10	\$ (7)	
Economic hedges (c)	1,909	184	(215)	2018	1,831	198	(246)	

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
 (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
 (c) To economically hedge the translation of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

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

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

Volumetric Risk

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

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

Defined Benefit Plans - Securities Price Risk

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

Credit Risk

(All Registrants)

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

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(PPL and PPL Electric)

In 2014, PPL Electric filed a request with the PUC for approval of PPL Electric's PLR procurement plan for the period of June 2015 through May 2017, which was approved in January 2015. To date, PPL Electric has conducted all of its planned competitive solicitations. In February 2016, PPL Electric filed a request with the PUC for approval of PPL Electric's PLR procurement plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply held semiannually in April and October. In October 2016, the PUC approved PPL Electric's plan with the exception of one item. On January 26, 2017, the PUC issued a Final Order approving its original position and concluded proceedings on the plan.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2016, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

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

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2016, changes in this exchange rate resulted in a foreign currency translation loss of \$1.1 billion, which primarily reflected a \$2.1 billion decrease to PP&E and \$490 million decrease to goodwill partially offset by a \$1.3 billion decrease to long-term debt and a decrease of \$208 million to other net liabilities. In 2015, changes in this exchange rate resulted in a foreign currency translation loss of \$240 million, which primarily reflected a \$472 million decrease to PP&E and \$117 million decrease to goodwill partially offset by a \$285 million decrease to long-term debt and a decrease of \$64 million to other net liabilities. In 2014, changes in this exchange rate resulted in a foreign currency translation loss of \$290 million, which primarily reflected a \$542 million decrease to PP&E and \$138 million decrease to goodwill partially offset by a \$337 million decrease to long-term debt and a decrease of \$53 million to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

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

(PPL)

See Note 8 to the Financial Statements for information on the spinoff of PPL Energy Supply.

(All Registrants)

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be

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significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 13 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines, and
- National Ambient Air Quality Standards.

Additionally, see "Item 1. Business - Environmental Matters" for further information on environmental matters. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

Sustainability

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

As has been PPL's practice, to the extent sustainability issues have or may have a material impact on the Registrants' financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report and post that report on its corporate website at www.pplweb.com and on www.pplsustainability.com. Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories, together with recent efforts by the Edison Electric Institute to provide guidance as to the appropriate subset of sustainability information that can be applied consistently across the electric utility industry.

Competition

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

New Accounting Guidance

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

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in

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Note 1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them.

Price Risk Management (PPL)

See "Financial Condition - Risk Management" above, as well as "Price Risk Management" in Note 1 to the Financial Statements.

Defined Benefits

(All Registrants)

Certain of the Registrants' subsidiaries sponsor or participate in, as applicable, various qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the Registrants' employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Notes 6 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

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

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

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

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

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In addition to the economic assumptions above that are evaluated annually, Management must also make assumptions regarding the life expectancy of employees covered under their defined benefit pension and other postretirement benefit plans.

- **U.S.** - at December 31, 2014, the plan sponsors adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In

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addition, plan sponsors updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies.

- U.K. - at March 31 2016, the UK plan sponsors adopted the new mortality assumptions based on the "SAPS S2 All" tables issued by the Self-Administered Pensions Schemes' (SAPS) study for all U.K. defined benefit pension plans. In addition, the UK plan sponsors updated the basis for estimating projected mortality improvements and selected the CMI 2015 Core Projections model published by the Continuous Mortality Investigation study with a long-term future improvement rate of 1% for all U.K. defined benefit pension plans. These new mortality assumptions reflect the impact of the most recently available actual scheme mortality data (which has been higher than previously expected) on both current life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in a decrease to U.K. defined benefit pension obligations, a decrease to future expense and an increase to funded status.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Historically, WPD used the single weighted-average discount rate derived from the spot rates used to discount the benefit obligation. Concurrent with the annual remeasurement of plan assets and obligations at December 31, 2015, WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost.

An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions selected for discount rate, expected return on plan assets and rate of compensation increase at December 31 used to measure current year obligations and subsequent year net periodic defined benefit costs under GAAP, as applicable.

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Assumption / Registrant	2016	2015
<i>Discount rate</i>		
Pension - PPL (U.S.)	4.21%	4.59%
Pension - PPL (U.K.) Obligations	2.87%	3.68%
Pension - PPL (U.K.) Service Cost (a)	2.99%	3.90%
Pension - PPL (U.K.) Interest Cost (a)	2.41%	3.14%
Pension - LKE	4.19%	4.56%
Pension - LG&E	4.13%	4.49%
Other Postretirement - PPL	4.11%	4.48%
Other Postretirement - LKE	4.12%	4.49%
<i>Expected return on plan assets</i>		
Pension - PPL (U.S.)	7.00%	7.00%
Pension - PPL (U.K.)	7.22%	7.20%
Pension - LKE	7.00%	7.00%
Pension - LG&E	7.00%	7.00%
Other Postretirement - PPL	6.21%	6.11%
Other Postretirement - LKE	6.82%	6.82%
<i>Rate of compensation increase</i>		
Pension - PPL (U.S.)	3.95%	3.93%
Pension - PPL (U.K.)	3.50%	4.00%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.92%	3.91%
Other Postretirement - LKE	3.50%	3.50%

(a) WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 to the Financial Statements for additional details.

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2016, the health care cost trend rate for all plans was 7.0% for 2017, gradually declining to an ultimate trend rate of 5.0% in 2022.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2016, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
<i>Balance Sheet:</i>					
Regulatory assets (a)	\$ 947	\$ 549	\$ 398	\$ 246	\$ 152
Regulatory liabilities	23		23		23
Pension liabilities	1,008	281	354	53	62
Other postretirement and postemployment benefit liabilities	213	72	122	76	40
AOCI (pre-tax)	2,930		119		
<i>Statement of Income:</i>					
Defined benefits expense	\$ (35)	\$ 11	\$ 30	\$ 11	\$ 7
Increase (decrease) from prior year	(93)	(4)	(8)	(1)	(3)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2016, the balances were \$20 million for PPL and LKE, \$11 million for LG&E and \$9 million for KU. See Note 6 to the Financial Statements for additional information.

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The tables reflect either an increase or decrease in each assumption. The inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities by a similar

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amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

Actuarial assumption

Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25 %
Health Care Cost Trend Rate (a)	1 %

(a) Only impacts other postretirement benefits.

Actuarial assumption	Increase (Decrease)		Increase (Decrease)	
	Defined Benefit Liabilities	AOCI (pre-tax)	Net Regulatory Assets	Defined Benefit Costs
PPL				
Discount rate	\$ 460	\$ 361	\$ 99	\$ 33
Expected return on plan assets	n/a	n/a	n/a	26
Rate of compensation increase	63	52	11	9
Health care cost trend rate (a)	5	1	4	—
PPL Electric				
Discount rate	60	—	60	4
Expected return on plan assets	n/a	—	n/a	4
Rate of compensation increase	7	—	7	1
Health care cost trend rate (a)	1	—	1	—
LKE				
Discount rates	64	25	39	5
Expected return on plan assets	n/a	n/a	n/a	3
Rate of compensation increase	8	4	4	1
Health care cost trend rate (a)	4	1	3	—
LG&E				
Discount rates	21	n/a	21	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	—
Health care cost trend rate (a)	1	n/a	1	—
KU				
Discount rates	18	n/a	18	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	—
Health care cost trend rate (a)	2	n/a	2	—

(a) Only impacts other postretirement benefits.

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

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

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

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When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL's goodwill was \$3.1 billion at December 31, 2016, which consists of \$2.4 billion related to the acquisition of WPD and \$662 million related to the acquisition of LKE. PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2016. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying values. As such, the two-step quantitative impairment test was not performed.

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

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

See Note 19 to the Financial Statements for additional information on AROs.

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

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At December 31, 2016, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO Recorded	Most Significant AROs		
		Amount Recorded	% of Total	Description
PPL	\$ 488	\$ 337	69	Ash ponds, landfills and natural gas mains
LKE	433	337	78	Ash ponds, landfills and natural gas mains
LG&E	145	84	58	Ash ponds, landfills and natural gas mains
KU	288	253	88	Ash ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2016, a 10% increase to retirement cost would increase the ARO liabilities by \$36 million. A 0.25% decrease in the discount rate would increase the ARO liabilities by \$5 million and a 0.25% increase in the inflation rate would increase the ARO liabilities by \$5 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

Income Taxes (*All Registrants*)

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

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date.

At December 31, 2016, no significant changes in unrecognized tax benefits are projected over the next 12 months.

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

See Note 5 to the Financial Statements for income tax disclosures, including management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. income taxes on WPD's undistributed earnings.

Regulatory Assets and Liabilities*(PPL)*

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. As the regulatory model is incentive-based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition and contingency guidance. See Note 1 to the Financial Statements for additional information.

(All Registrants)

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

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

At December 31, 2016, regulatory assets and regulatory liabilities were recorded as reflected in the table below. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

	PPL	PPL Electric	LKE	LG&E	KU
Regulatory assets	\$ 1,957	\$ 1,113	\$ 844	\$ 459	\$ 385
Regulatory liabilities	1,000	83	917	424	493

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

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

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

	2016	2015
LKE	\$ 170	\$ 147
LG&E	75	67
KU	95	80

Other Information *(All Registrants)*

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheet of PPL Corporation and subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended. Our audit also included the financial statement schedule as of and for the year ended December 31, 2016 as listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PPL Corporation and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule as of and for the year ended December 31, 2016, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Parsippany, NJ

February 17, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of PPL Corporation

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company, and our report dated February 17, 2017, expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Parsippany, NJ

February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheet of PPL Corporation and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the two years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2) as of December 31, 2015 and for each of the two years in the period ended December 31, 2015. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule as of December 31, 2015 and for each of the two years in the period ended December 31, 2015, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of PPL Electric Utilities Corporation and subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of income, equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Parsippany, NJ

February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowner of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheet of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2015, and the related consolidated statements of income, equity, and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of LG&E and KU Energy LLC and subsidiaries (the “Company”) as of December 31, 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended. Our audit also included the financial statement schedule as of and for the year ended December 31, 2016 as listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of LG&E and KU Energy LLC and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule as of and for the year ended December 31, 2016, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of LG&E and KU Energy LLC and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the two years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2) as of December 31, 2015 and for each of the two years in the period ended December 31, 2015. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule as of December 31, 2015 and for each of the two years ended December 31, 2015, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of Louisville Gas and Electric Company (the “Company”) as of December 31, 2016, and the related statements of income, equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheet of Louisville Gas and Electric Company as of December 31, 2015, and the related statements of income, equity and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2015, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheet of Kentucky Utilities Company (the "Company") as of December 31, 2016, and the related statements of income, equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheet of Kentucky Utilities Company as of December 31, 2015, and the related statements of income, equity and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2015, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(Millions of Dollars, except share data)

	2016	2015	2014
Operating Revenues	\$ 7,517	\$ 7,669	\$ 7,852
Operating Expenses			
Operation			
Fuel	791	863	965
Energy purchases	706	855	924
Other operation and maintenance	1,745	1,938	1,856
Depreciation	926	883	923
Taxes, other than income	301	299	317
Total Operating Expenses	<u>4,469</u>	<u>4,838</u>	<u>4,985</u>
Operating Income	3,048	2,831	2,867
Other Income (Expense) - net	390	108	105
Interest Expense	888	871	843
Income from Continuing Operations Before Income Taxes	2,550	2,068	2,129
Income Taxes	648	465	692
Income from Continuing Operations After Income Taxes	1,902	1,603	1,437
Income (Loss) from Discontinued Operations (net of income taxes) (Note 8)	—	(921)	300
Net Income	\$ 1,902	\$ 682	\$ 1,737
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:			
Basic	\$ 2.80	\$ 2.38	\$ 2.19
Diluted	\$ 2.79	\$ 2.37	\$ 2.16
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.80	\$ 1.01	\$ 2.64
Diluted	\$ 2.79	\$ 1.01	\$ 2.61
Dividends Declared Per Share of Common Stock	\$ 1.52	\$ 1.50	\$ 1.49
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	677,592	669,814	653,504
Diluted	680,446	672,586	665,973

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

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

(Millions of Dollars)

	2016	2015	2014
Net income	\$ 1,902	\$ 682	\$ 1,737
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of (\$4), \$1, (\$8)	(1,107)	(234)	(275)
Available-for-sale securities, net of tax of \$0, (\$9), (\$39)	—	8	35
Qualifying derivatives, net of tax of (\$18), \$0, \$23	91	26	(10)
Defined benefit plans:			
Prior service costs, net of tax of \$2, \$6, (\$4)	(3)	(9)	5
Net actuarial gain (loss), net of tax of \$40, \$67, \$225	(61)	(366)	(509)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$0, \$2, \$7	—	(2)	(6)
Qualifying derivatives, net of tax of \$21, (\$15), \$23	(91)	2	(64)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	(1)	(1)	—
Defined benefit plans:			
Prior service costs, net of tax of (\$1), \$0, (\$3)	1	—	4
Net actuarial (gain) loss, net of tax of (\$35), (\$46), (\$34)	121	146	111
Total other comprehensive income (loss)	(1,050)	(430)	(709)
Comprehensive income	\$ 852	\$ 252	\$ 1,028

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

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

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 1,902	\$ 682	\$ 1,737
Loss (income) from discontinued operations (net of income taxes)	—	921	(300)
Income from continuing operations (net of income taxes)	1,902	1,603	1,437
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by (used in) operating activities- continuing operations			
Depreciation	926	883	923
Amortization	80	59	65
Defined benefit plans - expense (income)	(40)	56	48
Deferred income taxes and investment tax credits	560	428	666
Unrealized (gains) losses on derivatives, and other hedging activities	19	(77)	(187)
Adjustment to WPD line loss accrual	—	—	65
Other	16	17	66
Change in current assets and current liabilities			
Accounts receivable	(15)	47	(123)
Accounts payable	57	(116)	40
Unbilled revenues	(63)	54	22
Prepayments	(4)	(23)	87
Taxes payable	31	(175)	161
Regulatory assets and liabilities, net	(59)	42	(7)
Other	(31)	40	30
Other operating activities			
Defined benefit plans - funding	(427)	(499)	(384)
Settlement of interest rate swaps	(9)	(101)	—
Other assets	42	(19)	9
Other liabilities	(95)	53	23
Net cash provided by (used in) operating activities - continuing operations	2,890	2,272	2,941
Net cash provided by (used in) operating activities - discontinued operations	—	343	462
Net cash provided by (used in) operating activities	2,890	2,615	3,403
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(2,920)	(3,533)	(3,674)
Expenditures for intangible assets	(37)	(37)	(49)
Purchases of other investments	—	—	(120)
Proceeds from the sale of other investments	2	136	—
Net decrease in restricted cash and cash equivalents	8	8	19
Other investing activities	29	(13)	(2)
Net cash provided by (used in) investing activities - continuing operations	(2,918)	(3,439)	(3,826)
Net cash provided by (used in) investing activities - discontinued operations	—	(149)	497
Net cash provided by (used in) investing activities	(2,918)	(3,588)	(3,329)
Cash Flows from Financing Activities			
Issuance of long-term debt	1,342	2,236	296
Retirement of long-term debt	(930)	(1,000)	(237)
Settlement of cross currency swaps	46	—	—
Issuance of common stock	144	203	1,074
Payment of common stock dividends	(1,030)	(1,004)	(967)
Net increase in short-term debt	29	94	147
Other financing activities	(40)	(47)	(51)
Net cash provided by (used in) financing activities - continuing operations	(439)	482	262
Net cash provided by (used in) financing activities - discontinued operations	—	(546)	(846)
Net cash distributions to parent from discontinued operations	—	132	1,167
Net cash provided by (used in) financing activities	(439)	68	583
Effect of Exchange Rates on Cash and Cash Equivalents	(28)	(10)	(8)
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	—	352	(113)

Net Increase (Decrease) in Cash and Cash Equivalents	(495)	(563)	536
Cash and Cash Equivalents at Beginning of Period	836	1,399	863
Cash and Cash Equivalents at End of Period	\$ 341	\$ 836	\$ 1,399

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 854	\$ 822	\$ 959
Income taxes - net	\$ 70	\$ 179	\$ 190
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 281	\$ 310	\$ 458
Accrued expenditures for intangible assets at December 31,	\$ 117	\$ 55	\$ 19

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries***(Millions of Dollars, shares in thousands)*

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 341	\$ 836
Accounts receivable (less reserve: 2016, \$54; 2015, \$41)		
Customer	666	673
Other	46	59
Unbilled revenues	480	453
Fuel, materials and supplies	356	357
Prepayments	63	66
Price risk management assets	63	139
Other current assets	52	63
Total Current Assets	2,067	2,646
Property, Plant and Equipment		
Regulated utility plant	34,674	34,399
Less: accumulated depreciation - regulated utility plant	6,013	5,683
Regulated utility plant, net	28,661	28,716
Non-regulated property, plant and equipment	413	516
Less: accumulated depreciation - non-regulated property, plant and equipment	134	165
Non-regulated property, plant and equipment, net	279	351
Construction work in progress	1,134	1,315
Property, Plant and Equipment, net	30,074	30,382
Other Noncurrent Assets		
Regulatory assets	1,918	1,733
Goodwill	3,060	3,550
Other intangibles	700	679
Price risk management assets	336	156
Other noncurrent assets	160	155
Total Other Noncurrent Assets	6,174	6,273
Total Assets	\$ 38,315	\$ 39,301

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 923	\$ 916
Long-term debt due within one year	518	485
Accounts payable	820	812
Taxes	101	85
Interest	270	303
Dividends	259	255
Customer deposits	276	326
Regulatory liabilities	101	145
Other current liabilities	569	549
Total Current Liabilities	<u>3,837</u>	<u>3,876</u>
Long-term Debt	17,808	18,563
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,889	3,440
Investment tax credits	132	128
Accrued pension obligations	1,001	1,405
Asset retirement obligations	428	536
Regulatory liabilities	899	945
Other deferred credits and noncurrent liabilities	422	489
Total Deferred Credits and Other Noncurrent Liabilities	<u>6,771</u>	<u>6,943</u>
Commitments and Contingent Liabilities (Notes 5, 6 and 13)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	9,841	9,687
Earnings reinvested	3,829	2,953
Accumulated other comprehensive loss	(3,778)	(2,728)
Total Equity	<u>9,899</u>	<u>9,919</u>
Total Liabilities and Equity	\$ <u>38,315</u>	\$ <u>39,301</u>

(a) 1,560,000 shares authorized; 679,731 shares issued and outstanding at December 31, 2016; 780,000 shares authorized; 673,857 shares issued and outstanding at December 31, 2015.

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners					
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2013	630,321	\$ 6	\$ 8,316	\$ 5,709	\$ (1,565)	\$ 12,466
Common stock issued	35,528	1	1,089			1,090
Stock-based compensation			28			28
Net income				1,737		1,737
Dividends and dividend equivalents				(984)		(984)
Other comprehensive income (loss)					(709)	(709)
December 31, 2014	<u>665,849</u>	<u>\$ 7</u>	<u>\$ 9,433</u>	<u>\$ 6,462</u>	<u>\$ (2,274)</u>	<u>\$ 13,628</u>
Common stock issued	8,008		249			249
Stock-based compensation			5			5
Net income				682		682
Dividends and dividend equivalents				(1,010)		(1,010)
Distribution of PPL Energy Supply (Note 8)				(3,181)	(24)	(3,205)
Other comprehensive income (loss)					(430)	(430)
December 31, 2015	<u>673,857</u>	<u>\$ 7</u>	<u>\$ 9,687</u>	<u>\$ 2,953</u>	<u>\$ (2,728)</u>	<u>\$ 9,919</u>
Common stock issued	5,874		185			185
Stock-based compensation			(31)			(31)
Net income				1,902		1,902
Dividends and dividend equivalents				(1,033)		(1,033)
Other comprehensive income (loss)					(1,050)	(1,050)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 1)				7		7
December 31, 2016	<u>679,731</u>	<u>\$ 7</u>	<u>\$ 9,841</u>	<u>\$ 3,829</u>	<u>\$ (3,778)</u>	<u>\$ 9,899</u>

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

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

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

	2016	2015	2014
Operating Revenues	\$ 2,156	\$ 2,124	\$ 2,044
Operating Expenses			
Operation			
Energy purchases	535	657	587
Energy purchases from affiliate	—	14	84
Other operation and maintenance	599	607	543
Depreciation	253	214	185
Taxes, other than income	105	94	107
Total Operating Expenses	<u>1,492</u>	<u>1,586</u>	<u>1,506</u>
Operating Income	664	538	538
Other Income (Expense) - net	17	8	7
Interest Expense	<u>129</u>	<u>130</u>	<u>122</u>
Income Before Income Taxes	552	416	423
Income Taxes	<u>212</u>	<u>164</u>	<u>160</u>
Net Income (a)	<u>\$ 340</u>	<u>\$ 252</u>	<u>\$ 263</u>

(a) Net income equals comprehensive income.

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

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

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 340	\$ 252	\$ 263
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	253	214	185
Amortization	32	26	19
Defined benefit plans - expense	11	16	15
Deferred income taxes and investment tax credits	221	220	87
Other	(13)	(12)	(23)
Change in current assets and current liabilities			
Accounts receivable	16	50	(64)
Accounts payable	58	(107)	30
Unbilled revenues	(23)	22	3
Prepayments	43	(1)	1
Regulatory assets and liabilities	(62)	35	5
Taxes payable	(12)	(108)	75
Other	(7)	21	10
Other operating activities			
Defined benefit plans - funding	—	(33)	(23)
Other assets	19	(10)	19
Other liabilities	(4)	17	11
Net cash provided by (used in) operating activities	<u>872</u>	<u>602</u>	<u>613</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,125)	(1,097)	(931)
Expenditures for intangible assets	(9)	(10)	(26)
Net decrease in notes receivable from affiliate	—	—	150
Other investing activities	4	(1)	16
Net cash provided by (used in) investing activities	<u>(1,130)</u>	<u>(1,108)</u>	<u>(791)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	224	348	296
Retirement of long-term debt	(224)	(100)	(10)
Contributions from PPL	220	275	263
Payment of common stock dividends to parent	(288)	(181)	(158)
Net increase (decrease) in short-term debt	295	—	(20)
Other financing activities	(3)	(3)	(4)
Net cash provided by (used in) financing activities	<u>224</u>	<u>339</u>	<u>367</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(34)	(167)	189
Cash and Cash Equivalents at Beginning of Period	47	214	25
Cash and Cash Equivalents at End of Period	<u>\$ 13</u>	<u>\$ 47</u>	<u>\$ 214</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 115	\$ 117	\$ 110
Income taxes - net	\$ (48)	\$ 38	\$ 40
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 126	\$ 98	\$ 95

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries***(Millions of Dollars, shares in thousands)*

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 13	\$ 47
Accounts receivable (less reserve: 2016, \$28; 2015, \$16)		
Customer	272	286
Other	21	10
Unbilled revenues	114	91
Materials and supplies	32	34
Prepayments	9	66
Regulatory assets	19	13
Other current assets	8	8
Total Current Assets	<u>488</u>	<u>555</u>
Property, Plant and Equipment		
Regulated utility plant	9,654	8,734
Less: accumulated depreciation - regulated utility plant	2,714	2,573
Regulated utility plant, net	<u>6,940</u>	<u>6,161</u>
Construction work in progress	641	530
Property, Plant and Equipment, net	<u>7,581</u>	<u>6,691</u>
Other Noncurrent Assets		
Regulatory assets	1,094	1,006
Intangibles	251	244
Other noncurrent assets	12	15
Total Other Noncurrent Assets	<u>1,357</u>	<u>1,265</u>
Total Assets	<u>\$ 9,426</u>	<u>\$ 8,511</u>

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 295	\$ —
Long-term debt due within one year	224	—
Accounts payable	367	288
Accounts payable to affiliates	42	35
Taxes	12	24
Interest	34	37
Customer deposits	23	31
Regulatory liabilities	83	113
Other current liabilities	78	77
Total Current Liabilities	<u>1,158</u>	<u>605</u>
Long-term Debt	<u>2,607</u>	<u>2,828</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,899	1,663
Accrued pension obligations	281	183
Regulatory liabilities	—	22
Other deferred credits and noncurrent liabilities	90	91
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,270</u>	<u>1,959</u>
Commitments and Contingent Liabilities (Notes 6 and 13)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,154	1,934
Earnings reinvested	873	821
Total Equity	<u>3,391</u>	<u>3,119</u>
Total Liabilities and Equity	<u>\$ 9,426</u>	<u>\$ 8,511</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2016 and 2015.

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

CONSOLIDATED STATEMENTS OF EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid- in capital	Earnings reinvested	Total
December 31, 2013	66,368	\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income				263	263
Capital contributions from PPL			263		263
Dividends declared on common stock				(158)	(158)
December 31, 2014	66,368	\$ 364	\$ 1,603	\$ 750	\$ 2,717
Net income				252	252
Capital contributions from PPL (b)			331		331
Dividends declared on common stock				(181)	(181)
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				340	340
Capital contributions from PPL			220		220
Dividends declared on common stock				(288)	(288)
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391

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

(b) Includes non-cash contributions of \$56 million. See Note 11 for additional information.

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

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries***(Millions of Dollars)*

	2016	2015	2014
Operating Revenues	\$ 3,141	\$ 3,115	\$ 3,168
Operating Expenses			
Operation			
Fuel	791	863	965
Energy purchases	171	184	253
Other operation and maintenance	804	837	815
Depreciation	404	382	354
Taxes, other than income	62	57	52
Total Operating Expenses	<u>2,232</u>	<u>2,323</u>	<u>2,439</u>
Operating Income	909	792	729
Other Income (Expense) - net	(9)	(8)	(9)
Interest Expense	197	178	167
Interest Expense with Affiliate	17	3	—
Income Before Income Taxes	686	603	553
Income Taxes	257	239	209
Net Income	<u>\$ 429</u>	<u>\$ 364</u>	<u>\$ 344</u>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2016	2015	2014
Net income	\$ 429	\$ 364	\$ 344
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$2, \$4	—	(3)	(7)
Net actuarial gain (loss), net of tax of \$18, \$2, \$32	(27)	(4)	(50)
Reclassification from AOCI - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	(1)	—	(1)
Defined benefit plans:			
Prior service costs, net of tax of (\$1), (\$1), \$0	2	1	1
Net actuarial (gain) loss, net of tax of (\$1), (\$3), \$0	2	5	(1)
Total other comprehensive income (loss)	(24)	(1)	(58)
Comprehensive income	\$ 405	\$ 363	\$ 286

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 429	\$ 364	\$ 344
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	404	382	354
Amortization	29	27	25
Defined benefit plans - expense	27	38	25
Deferred income taxes and investment tax credits	291	236	449
Other	—	2	16
Change in current assets and current liabilities			
Accounts receivable	(31)	24	(20)
Accounts payable	24	(58)	12
Accounts payable to affiliates	1	(2)	(1)
Unbilled revenues	(23)	20	13
Fuel, materials and supplies	2	6	(32)
Income tax receivable	1	135	(136)
Taxes payable	(7)	10	(3)
Accrued interest	—	9	—
Other	(6)	23	(1)
Other operating activities			
Defined benefit plans - funding	(85)	(70)	(45)
Settlement of interest rate swaps	(9)	(88)	—
Expenditures for asset retirement obligations	(26)	(7)	(5)
Other assets	2	(7)	(7)
Other liabilities	4	19	11
Net cash provided by (used in) operating activities	<u>1,027</u>	<u>1,063</u>	<u>999</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(791)	(1,210)	(1,262)
Net decrease in notes receivable from affiliates	—	—	70
Other investing activities	1	7	1
Net cash provided by (used in) investing activities	<u>(790)</u>	<u>(1,203)</u>	<u>(1,191)</u>
Cash Flows from Financing Activities			
Net increase in notes payable with affiliates	109	13	41
Issuance of long-term note with affiliate	—	400	—
Issuance of long-term debt	221	1,050	—
Retirement of long-term debt	(246)	(900)	—
Net increase (decrease) in short-term debt	(80)	(310)	330
Debt issuance and credit facility costs	(3)	(10)	(5)
Distributions to member	(316)	(219)	(436)
Contributions from member	61	125	248
Net cash provided by (used in) financing activities	<u>(254)</u>	<u>149</u>	<u>178</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(17)	9	(14)
Cash and Cash Equivalents at Beginning of Period	<u>30</u>	<u>21</u>	<u>35</u>
Cash and Cash Equivalents at End of Period	<u>\$ 13</u>	<u>\$ 30</u>	<u>\$ 21</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 198	\$ 163	\$ 157
Income taxes - net	\$ (24)	\$ (139)	\$ (75)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 104	\$ 150	\$ 286

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries***(Millions of Dollars)*

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 13	\$ 30
Accounts receivable (less reserve: 2016, \$24; 2015, \$23)		
Customer	235	209
Other	17	17
Unbilled revenues	170	147
Fuel, materials and supplies	297	298
Prepayments	24	23
Regulatory assets	20	35
Other current assets	4	6
Total Current Assets	<u>780</u>	<u>765</u>
Property, Plant and Equipment		
Regulated utility plant	12,746	11,906
Less: accumulated depreciation - regulated utility plant	1,465	1,163
Regulated utility plant, net	<u>11,281</u>	<u>10,743</u>
Construction work in progress	317	660
Property, Plant and Equipment, net	<u>11,598</u>	<u>11,403</u>
Other Noncurrent Assets		
Regulatory assets	824	727
Goodwill	996	996
Other intangibles	95	123
Other noncurrent assets	78	76
Total Other Noncurrent Assets	<u>1,993</u>	<u>1,922</u>
Total Assets	<u>\$ 14,371</u>	<u>\$ 14,090</u>

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 185	\$ 265
Long-term debt due within one year	194	25
Notes payable with affiliates	163	54
Accounts payable	251	266
Accounts payable to affiliates	6	5
Customer deposits	56	52
Taxes	39	46
Price risk management liabilities	4	5
Regulatory liabilities	18	32
Interest	32	32
Asset retirement obligations	60	50
Other current liabilities	119	135
Total Current Liabilities	1,127	967
Long-term Debt		
Long-term debt	4,471	4,663
Long-term debt to affiliate	400	400
Total Long-term Debt	4,871	5,063
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,735	1,463
Investment tax credits	132	128
Price risk management liabilities	27	42
Accrued pension obligations	350	296
Asset retirement obligations	373	485
Regulatory liabilities	899	923
Other deferred credits and noncurrent liabilities	190	206
Total Deferred Credits and Other Noncurrent Liabilities	3,706	3,543
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity		
	4,667	4,517
Total Liabilities and Equity	\$ 14,371	\$ 14,090

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

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

(Millions of Dollars)

	Member's Equity
December 31, 2013	\$ 4,150
Net income	344
Contributions from member	248
Distributions to member	(436)
Other comprehensive income (loss)	(58)
December 31, 2014	\$ 4,248
Net income	\$ 364
Contributions from member	125
Distributions to member	(219)
Other comprehensive income (loss)	(1)
December 31, 2015	\$ 4,517
Net income	\$ 429
Contributions from member	61
Distributions to member	(316)
Other comprehensive income (loss)	(24)
December 31, 2016	\$ 4,667

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

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company***(Millions of Dollars)*

	2016	2015	2014
Operating Revenues			
Retail and wholesale	\$ 1,406	\$ 1,407	\$ 1,445
Electric revenue from affiliate	24	37	88
Total Operating Revenues	<u>1,430</u>	<u>1,444</u>	<u>1,533</u>
Operating Expenses			
Operation			
Fuel	301	329	404
Energy purchases	153	166	230
Energy purchases from affiliate	14	20	14
Other operation and maintenance	355	377	379
Depreciation	170	162	157
Taxes, other than income	32	28	25
Total Operating Expenses	<u>1,025</u>	<u>1,082</u>	<u>1,209</u>
Operating Income	405	362	324
Other Income (Expense) - net	(5)	(6)	(3)
Interest Expense	71	57	49
Income Before Income Taxes	329	299	272
Income Taxes	126	114	103
Net Income (a)	<u>\$ 203</u>	<u>\$ 185</u>	<u>\$ 169</u>

(a) Net income equals comprehensive income.

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

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company**

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 203	\$ 185	\$ 169
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	170	162	157
Amortization	14	11	12
Defined benefit plans - expense	8	12	9
Deferred income taxes and investment tax credits	147	126	118
Other	—	8	2
Change in current assets and current liabilities			
Accounts receivable	(22)	19	(12)
Accounts receivable from affiliates	(16)	11	(23)
Accounts payable	31	(29)	25
Accounts payable to affiliates	1	5	(4)
Unbilled revenues	(8)	9	9
Fuel, materials and supplies	8	3	(8)
Income tax receivable	4	70	(74)
Taxes payable	20	1	8
Accrued interest	—	5	—
Other	(7)	17	—
Other operating activities			
Defined benefit plans - funding	(46)	(26)	(13)
Settlement of interest rate swaps	(9)	(44)	—
Expenditures for asset retirement obligations	(18)	(6)	(4)
Other assets	—	11	(2)
Other liabilities	2	4	2
Net cash provided by (used in) operating activities	<u>482</u>	<u>554</u>	<u>371</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(439)	(689)	(656)
Net cash provided by (used in) investing activities	<u>(439)</u>	<u>(689)</u>	<u>(656)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	125	550	—
Retirement of long-term debt	(150)	(250)	—
Net increase (decrease) in short-term debt	27	(122)	244
Debt issuance and credit facility costs	(2)	(5)	(2)
Payment of common stock dividends to parent	(128)	(119)	(112)
Contributions from parent	71	90	157
Net cash provided by (used in) financing activities	<u>(57)</u>	<u>144</u>	<u>287</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14)	9	2
Cash and Cash Equivalents at Beginning of Period	<u>19</u>	<u>10</u>	<u>8</u>
Cash and Cash Equivalents at End of Period	<u>\$ 5</u>	<u>\$ 19</u>	<u>\$ 10</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 65	\$ 48	\$ 46
Income taxes - net	\$ (43)	\$ (81)	\$ 65
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 56	\$ 97	\$ 162

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

**BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company***(Millions of Dollars, shares in thousands)*

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 5	\$ 19
Accounts receivable (less reserve: 2016, \$2; 2015, \$1)		
Customer	109	92
Other	11	11
Unbilled revenues	75	67
Accounts receivable from affiliates	28	12
Fuel, materials and supplies	143	151
Prepayments	12	5
Regulatory assets	9	16
Other current assets	1	2
Total Current Assets	393	375
Property, Plant and Equipment		
Regulated utility plant	5,357	4,804
Less: accumulated depreciation - regulated utility plant	498	404
Regulated utility plant, net	4,859	4,400
Construction work in progress	133	390
Property, Plant and Equipment, net	4,992	4,790
Other Noncurrent Assets		
Regulatory assets	450	424
Goodwill	389	389
Other intangibles	59	73
Other noncurrent assets	17	17
Total Other Noncurrent Assets	915	903
Total Assets	\$ 6,300	\$ 6,068

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

BALANCE SHEETS AT DECEMBER 31, Louisville Gas and Electric Company

(Millions of Dollars, shares in thousands)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 169	\$ 142
Long-term debt due within one year	194	25
Accounts payable	148	157
Accounts payable to affiliates	26	25
Customer deposits	27	26
Taxes	40	20
Price risk management liabilities	4	5
Regulatory liabilities	5	13
Interest	11	11
Asset retirement obligations	41	25
Other current liabilities	36	39
Total Current Liabilities	701	488
Long-term Debt	1,423	1,617
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	974	829
Investment tax credits	36	35
Price risk management liabilities	27	42
Accrued pension obligations	53	56
Asset retirement obligations	104	149
Regulatory liabilities	419	431
Other deferred credits and noncurrent liabilities	87	91
Total Deferred Credits and Other Noncurrent Liabilities	1,700	1,633
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,611
Earnings reinvested	370	295
Total Equity	2,476	2,330
Total Liabilities and Equity	\$ 6,300	\$ 6,068

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2016 and December 31, 2015.

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

STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2013	21,294	\$ 424	\$ 1,364	\$ 172	\$ 1,960
Net income				169	169
Capital contributions from LKE			157		157
Cash dividends declared on common stock				(112)	(112)
December 31, 2014	21,294	\$ 424	\$ 1,521	\$ 229	\$ 2,174
Net income				185	185
Capital contributions from LKE			90		90
Cash dividends declared on common stock				(119)	(119)
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				203	203
Capital contributions from LKE			71		71
Cash dividends declared on common stock				(128)	(128)
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476

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

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

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company***(Millions of Dollars)*

	2016	2015	2014
Operating Revenues			
Retail and wholesale	\$ 1,735	\$ 1,708	\$ 1,723
Electric revenue from affiliate	14	20	14
Total Operating Revenues	1,749	1,728	1,737
Operating Expenses			
Operation			
Fuel	490	534	561
Energy purchases	18	18	23
Energy purchases from affiliate	24	37	88
Other operation and maintenance	424	435	408
Depreciation	234	220	197
Taxes, other than income	30	29	27
Total Operating Expenses	1,220	1,273	1,304
Operating Income	529	455	433
Other Income (Expense) - net	(5)	1	(1)
Interest Expense	96	82	77
Income Before Income Taxes	428	374	355
Income Taxes	163	140	135
Net Income (a)	\$ 265	\$ 234	\$ 220

(a) Net income approximates comprehensive income.

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

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company**

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 265	\$ 234	\$ 220
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	234	220	197
Amortization	14	13	11
Defined benefit plans - expense	5	10	5
Deferred income taxes and investment tax credits	126	160	224
Other	(1)	(5)	13
Change in current assets and current liabilities			
Accounts receivable	(8)	5	(9)
Accounts receivable from affiliates	1	(1)	—
Accounts payable	(10)	(32)	(10)
Accounts payable to affiliates	15	(10)	22
Unbilled revenues	(15)	11	4
Fuel, materials and supplies	(6)	3	(25)
Income tax receivable	—	59	(60)
Taxes payable	25	6	(19)
Accrued interest	—	5	—
Other	(3)	4	(5)
Other operating activities			
Defined benefit plans - funding	(20)	(21)	(5)
Settlement of interest rate swaps	—	(44)	—
Expenditures for asset retirement obligations	(8)	(1)	(1)
Other assets	(6)	(11)	(4)
Other liabilities	(2)	3	8
Net cash provided by (used in) operating activities	<u>606</u>	<u>608</u>	<u>566</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(350)	(519)	(604)
Other investing activities	1	7	1
Net cash provided by (used in) investing activities	<u>(349)</u>	<u>(512)</u>	<u>(603)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	96	500	—
Retirement of long-term debt	(96)	(250)	—
Net increase (decrease) in short-term debt	(32)	(188)	86
Debt issuance and credit facility costs	(1)	(5)	(2)
Payment of common stock dividends to parent	(248)	(153)	(148)
Contributions from parent	20	—	91
Net cash provided by (used in) financing activities	<u>(261)</u>	<u>(96)</u>	<u>27</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4)	—	(10)
Cash and Cash Equivalents at Beginning of Period	11	11	21
Cash and Cash Equivalents at End of Period	<u>\$ 7</u>	<u>\$ 11</u>	<u>\$ 11</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 89	\$ 75	\$ 73
Income taxes - net	\$ 13	\$ (84)	\$ —
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 47	\$ 53	\$ 124

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

**BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company***(Millions of Dollars, shares in thousands)*

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 7	\$ 11
Accounts receivable (less reserve: 2016, \$2; 2015, \$2)		
Customer	126	117
Other	5	9
Unbilled revenues	95	80
Accounts receivable from affiliates	—	1
Fuel, materials and supplies	154	147
Prepayments	12	8
Regulatory assets	11	19
Other current assets	3	4
Total Current Assets	413	396
Property, Plant and Equipment		
Regulated utility plant	7,382	7,099
Less: accumulated depreciation - regulated utility plant	965	759
Regulated utility plant, net	6,417	6,340
Construction work in progress	181	267
Property, Plant and Equipment, net	6,598	6,607
Other Noncurrent Assets		
Regulatory assets	374	303
Goodwill	607	607
Other intangibles	36	50
Other noncurrent assets	57	48
Total Other Noncurrent Assets	1,074	1,008
Total Assets	\$ 8,085	\$ 8,011

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

**BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company***(Millions of Dollars, shares in thousands)*

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 16	\$ 48
Accounts payable	78	88
Accounts payable to affiliates	56	39
Customer deposits	29	26
Taxes	45	20
Regulatory liabilities	13	19
Interest	16	16
Asset retirement obligations	19	25
Other current liabilities	36	44
Total Current Liabilities	308	325
Long-term Debt		
	2,327	2,326
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,170	1,046
Investment tax credits	96	93
Accrued pension obligations	62	46
Asset retirement obligations	269	336
Regulatory liabilities	480	492
Other deferred credits and noncurrent liabilities	50	60
Total Deferred Credits and Other Noncurrent Liabilities	2,127	2,073
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,596
Accumulated other comprehensive loss	(1)	—
Earnings reinvested	400	383
Total Equity	3,323	3,287
Total Liabilities and Equity	\$ 8,085	\$ 8,011

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2016 and December 31, 2015.

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

STATEMENTS OF EQUITY
Kentucky Utilities Company*(Millions of Dollars)*

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				220		220
Capital contributions from LKE			91			91
Cash dividends declared on common stock				(148)		(148)
Other comprehensive income (loss)					(1)	(1)
December 31, 2014	37,818	\$ 308	\$ 2,596	\$ 302	\$ —	\$ 3,206
Net income				234		234
Cash dividends declared on common stock				(153)		(153)
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Net income				265		265
Capital contributions from LKE			20			20
Cash dividends declared on common stock				(248)		(248)
Other comprehensive income (loss)					(1)	(1)
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323

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

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

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

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

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia (under the Old Dominion Power name) and in Tennessee under the KU name.

(PPL)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income for the years 2015 and 2014 includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statements of Cash Flows for the same periods separately report the cash flows of the discontinued operations. See Note 8 for additional information.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to exercise

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significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

(All Registrants)

Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Changes in Classification

The classification of certain amounts in the 2015 and 2014 financial statements have been changed to conform to the current presentation. These reclassifications did not affect the Registrants' net income or equity.

Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareholders. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to change in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities." See Note 17 for additional information.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. See Note 17 for additional information. The accounting department provides the treasury department with guidelines on appropriate accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.
- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

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(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Domestic electric and gas revenues (a)	\$ 5,297	\$ 5,239	\$ 5,209
U.K. operating revenues (b)	2,207	2,410	2,621
Domestic - other	13	20	22
Total	<u>\$ 7,517</u>	<u>\$ 7,669</u>	<u>\$ 7,852</u>

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.

(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties, adjustments for over or under-recovery from prior periods and adjustments related to the DPCR4 line loss close out.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition and contingency accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 will be adjusted during the price control period. The most significant of those adjustments are:

- **Inflation True-Up** - The base demand revenue for the RIIO-ED1 period was set in 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

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- Annual Iteration Process - The RIIO-ED1 price control period also includes an Annual Iteration Process (AIP). This will allow future base demand revenues agreed with the regulator as part of the price control review to be updated during the price control period for financial adjustments including tax, pensions and cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

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

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. Based on applicable GAAP, incentive revenues are not recorded as assets and are included in revenues when they are billed to customers.
- DPCR4 Line Loss Adjustment - For regulatory years 2015/16 through 2018/19 allowed revenue will also be reduced to reflect Ofgem's final decision on the DPCR4 line loss incentives and penalties mechanism. WPD has a liability recorded related to this future revenue reduction and, therefore, this will not impact future earnings. See Note 6 for additional information.
- Correction Factor - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment will occur in the 2016/17 regulatory year.

Under applicable GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. K-factor is measured as of the end of the regulatory year, March 31. While WPD estimates over-recoveries and records a liability when it is probable that there will be an over-recovered position at the end of the regulatory-year, weather-related volume changes and other factors such as sales mix can affect the over or under-recovery between the end of PPL's calendar year and the end of the regulatory year.

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2016, 2015 and 2014, PPL Electric purchased \$1.4 billion, \$1.3 billion and \$1.1 billion of accounts receivable from unaffiliated third parties. During 2015 and 2014, PPL Electric purchased \$146 million and \$336 million of accounts receivable from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for 2015 include purchases through May 31, 2015, which is the period during which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from unaffiliated third parties.

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Allowance for Doubtful Accounts

(All Registrants)

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2016	\$ 41	\$ 44	\$ —	\$ 31	\$ 54
2015	44	49	(2)	50	41
2014	43	49	—	48	44

PPL Electric

2016	\$ 16	\$ 35	\$ —	\$ 23	\$ 28
2015	17	39	—	40	16
2014	18	34	—	35	17

LKE

2016	\$ 23	\$ 8	\$ —	\$ 7	\$ 24
2015	25	9	(2)	9	23
2014	22	14	—	11	25

LG&E

2016	\$ 1	\$ 2	\$ 1	\$ 2	\$ 2
2015	2	2	—	3	1
2014	2	5	(1)	4	2

KU

2016	\$ 2	\$ 4	\$ —	\$ 4	\$ 2
2015	2	5	—	5	2
2014	4	8	(3)	7	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(PPL and PPL Electric)

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

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At December 31, the balances of restricted cash and cash equivalents included the following:

	PPL		PPL Electric	
	2016	2015	2016	2015
Low carbon network fund (a)	\$ 17	\$ 22	\$ —	\$ —
Other	9	11	2	2
Total	\$ 26	\$ 33	\$ 2	\$ 2

(a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

(All Registrants)

Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

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(PPL, LKE, LG&E and KU)

Cost Method Investment

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are conditionally responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. See Notes 6, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 6 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was as follows:

	PPL	
2016	\$	11
2015		11
2014		16

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Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2016	2015	2014
PPL	2.73%	2.57%	2.92%
PPL Electric	2.63%	2.46%	2.46%
LKE	3.69%	3.69%	3.80%
LG&E	3.58%	3.65%	4.05%
KU	3.77%	3.71%	3.63%

(PPL)

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years for GAAP reporting of depreciation expense. For 2015, this change in useful lives resulted in lower depreciation expense compared with 2014 of \$84 million (\$66 million after-tax or \$0.10 per share).

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

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PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2016. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying value. As such, the two-step quantitative impairment test was not performed and no impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligations. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 19 for additional information on AROs.

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Compensation and Benefits

Defined Benefits *(All Registrants)*

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 6 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

Discount Rate Change for U.K. Pension Plans *(PPL)*

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of \$43 million (\$34 million after-tax or \$0.05 per share).

See Note 11 for additional information.

Stock-Based Compensation *(PPL, PPL Electric and LKE)*

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

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

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine

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the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes including management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. taxes on WPD's undistributed earnings.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

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

The income tax provision for PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2016	2015
PPL Electric	\$ 13	\$ 56
LKE	1	(10)
LG&E	(18)	4
KU	(29)	(5)

Taxes, Other Than Income *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

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Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015	2016	2015
Fuel	\$ 158	\$ 168	\$ 158	\$ 168	\$ 60	\$ 71	\$ 98	\$ 97
Natural gas stored underground (a)	42	42	42	42	42	42	—	—
Materials and supplies	156	147	97	88	41	38	56	50
Total	<u>\$ 356</u>	<u>\$ 357</u>	<u>\$ 297</u>	<u>\$ 298</u>	<u>\$ 143</u>	<u>\$ 151</u>	<u>\$ 154</u>	<u>\$ 147</u>

(a) Natural gas stored underground is primarily held to serve retail customers.

Guarantees *(All Registrants)*

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock *(PPL and PPL Electric)*

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions *(PPL)*

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Stock-Based Compensation

Effective January 1, 2016, the Registrants adopted accounting guidance to simplify the accounting for share-based payment transactions. The guidance requires excess tax benefits and tax deficiencies to be recorded as income tax benefit or expense on the statement of income, eliminates the requirement that excess tax benefits be realized before companies can recognize them and changes the threshold for statutory income tax withholding requirements to qualify for equity classification to the

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maximum statutory tax rates in the applicable jurisdictions. This guidance also changes the classification of excess tax benefits to an operating activity and employee taxes paid when shares are withheld to satisfy the employer's statutory income tax withholding obligation to a financing activity on the statement of cash flows and allows entities to make a policy election to either estimate forfeitures or recognize them when they occur. The adoption of this guidance had the following impacts:

- Using the required prospective method of transition, for the year ended December 31, 2016, PPL recorded tax benefits of \$10 million (\$0.01 per share), and PPL Electric recorded tax benefits of \$6 million, related to excess tax benefits for awards that were exercised and vested. These amounts were recorded to "Income Taxes" on the Statements of Income and "Deferred income taxes" on the Balance Sheets. The impact on LKE was not significant.
- PPL elected to use the prospective method of transition for classifying excess tax benefits as an Operating activity on the Statement of Cash Flows. The amounts classified as Financing activities in the prior periods were not significant.
- Upon adoption, using the required modified retrospective method of transition, PPL recorded a cumulative effect adjustment of \$7 million to increase "Earnings reinvested" and decrease "Deferred income taxes" on the Balance Sheet related to prior period unrecognized excess tax benefits.
- PPL has historically presented employee taxes paid for net settled awards as a Financing activity on the Statement of Cash Flows. Therefore, there is no transition impact for this requirement.
- PPL has elected to recognize forfeitures when they occur. Due to past experience of insignificant forfeitures, there is no transition impact of this policy election.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs.

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs, which is presented to reconcile segment information to PPL's consolidated results.

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which substantially represented PPL's Supply segment. As a result of this transaction, PPL no longer has a Supply segment. See Note 8 for additional information.

Financial data for the segments for the years ended December 31 are as follows:

	2016	2015	2014
Income Statement Data			
Operating Revenues from external customers (a)			
U.K. Regulated	\$ 2,207	\$ 2,410	\$ 2,621
Kentucky Regulated	3,141	3,115	3,168
Pennsylvania Regulated	2,156	2,124	2,044
Corporate and Other	13	20	19
Total	<u>\$ 7,517</u>	<u>\$ 7,669</u>	<u>\$ 7,852</u>

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	2016	2015	2014
Depreciation			
U.K. Regulated	\$ 233	\$ 242	\$ 337
Kentucky Regulated	404	382	354
Pennsylvania Regulated	253	214	185
Corporate and Other	36	45	47
Total	\$ 926	\$ 883	\$ 923
Amortization (b)			
U.K. Regulated	\$ 16	\$ 6	\$ 17
Kentucky Regulated	29	27	25
Pennsylvania Regulated	32	26	19
Corporate and Other	3	—	4
Total	\$ 80	\$ 59	\$ 65
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	\$ 13	\$ (88)	\$ (199)
Kentucky Regulated	6	11	12
Total	\$ 19	\$ (77)	\$ (187)
Interest Expense			
U.K. Regulated	\$ 402	\$ 417	\$ 461
Kentucky Regulated	260	232	219
Pennsylvania Regulated	129	130	122
Corporate and Other	97	92	41
Total	\$ 888	\$ 871	\$ 843
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	\$ 1,479	\$ 1,249	\$ 1,311
Kentucky Regulated	640	547	501
Pennsylvania Regulated	550	416	423
Corporate and Other (d)	(119)	(144)	(106)
Total	\$ 2,550	\$ 2,068	\$ 2,129
Income Taxes (e)			
U.K. Regulated	\$ 233	\$ 128	\$ 329
Kentucky Regulated	242	221	189
Pennsylvania Regulated	212	164	160
Corporate and Other (d)	(39)	(48)	14
Total	\$ 648	\$ 465	\$ 692
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	\$ 31	\$ 45	\$ 94
Kentucky Regulated	291	236	449
Pennsylvania Regulated	221	220	87
Corporate and Other (d)	17	(73)	36
Total	\$ 560	\$ 428	\$ 666
Net Income			
U.K. Regulated	\$ 1,246	\$ 1,121	\$ 982
Kentucky Regulated	398	326	312
Pennsylvania Regulated	338	252	263
Corporate and Other (d)	(80)	(96)	(120)
Discontinued Operations (g)	—	(921)	300

Total	\$ 1,902	\$ 682	\$ 1,737
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	2016	2015	2014
Cash Flow Data			
Expenditures for long-lived assets			
U.K. Regulated	\$ 1,031	\$ 1,242	\$ 1,438
Kentucky Regulated	791	1,210	1,262
Pennsylvania Regulated	1,134	1,107	957
Corporate and Other	1	11	66
Total	\$ 2,957	\$ 3,570	\$ 3,723

As of December 31,

	2016	2015
Balance Sheet Data		
Total Assets		
U.K. Regulated (h)	\$ 14,537	\$ 16,669
Kentucky Regulated	14,037	13,756
Pennsylvania Regulated	9,426	8,511
Corporate and Other (i)	315	365
Total	\$ 38,315	\$ 39,301

Geographic data for the years ended December 31 are as follows:

	2016	2015	2014
Geographic Data			
Revenues from external customers			
U.K.	\$ 2,207	\$ 2,410	\$ 2,621
U.S.	5,310	5,259	5,231
Total	\$ 7,517	\$ 7,669	\$ 7,852
As of December 31,			
	2016	2015	
Long-Lived Assets			
U.K. (h)	\$ 11,177	\$ 12,487	
U.S.	19,595	18,569	
Total	\$ 30,772	\$ 31,056	

- (a) See Note 1 for additional information on Operating Revenues.
- (b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
- (c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.
- (d) 2015 and 2014 include certain costs related to the spinoff of PPL Energy Supply, including deferred income tax expense, transition costs and separation benefits for PPL Services employees. See Note 8 for additional information.
- (e) Represents both current and deferred income taxes, including investment tax credits.
- (f) Represents a non-cash expense item that is also included in "Income Taxes."
- (g) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply and five months of Supply segment earnings. 2014 includes a gain of \$237 million (\$137 million after-tax) on the sale of the Montana hydroelectric generating facilities. See Note 8 for additional information on these transactions.
- (h) Includes \$10.8 billion and \$12.2 billion of net PP&E as of December 31, 2016 and December 31, 2015. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
- (i) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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

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

3. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2016, 2015 or 2014.

[Table of Contents](#)*(PPL Electric)*

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2016, 2015 or 2014.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2016, 2015 or 2014.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2016, 2015 or 2014.

4. Earnings Per Share*(PPL)*

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

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

	2016	2015	2014
Income (Numerator)			
Income from continuing operations after income taxes	\$ 1,902	\$ 1,603	\$ 1,437
Less amounts allocated to participating securities	6	6	7
Income from continuing operations after income taxes available to PPL common shareowners - Basic	1,896	1,597	1,430
Plus interest charges (net of tax) related to Equity Units (a)	—	—	9
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	<u>\$ 1,896</u>	<u>\$ 1,597</u>	<u>\$ 1,439</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	<u>\$ —</u>	<u>\$ (921)</u>	<u>\$ 300</u>
Net income	\$ 1,902	\$ 682	\$ 1,737
Less amounts allocated to participating securities	6	2	9
Net income available to PPL common shareowners - Basic	1,896	680	1,728
Plus interest charges (net of tax) related to Equity Units (a)	—	—	9
Net income available to PPL common shareowners - Diluted	<u>\$ 1,896</u>	<u>\$ 680</u>	<u>\$ 1,737</u>
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	677,592	669,814	653,504
Add incremental non-participating securities:			
Share-based payment awards (b)	2,854	2,772	1,910
Equity Units (a)	—	—	10,559
Weighted-average shares - Diluted EPS	<u>680,446</u>	<u>672,586</u>	<u>665,973</u>

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	2016	2015	2014
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.80	\$ 2.38	\$ 2.19
Income (loss) from discontinued operations (net of income taxes)	—	(1.37)	0.45
Net Income	<u>\$ 2.80</u>	<u>\$ 1.01</u>	<u>\$ 2.64</u>
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.79	\$ 2.37	\$ 2.16
Income (loss) from discontinued operations (net of income taxes)	—	(1.36)	0.45
Net Income	<u>\$ 2.79</u>	<u>\$ 1.01</u>	<u>\$ 2.61</u>

- (a) In 2014, the If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the Equity Units, including the issuance of PPL common stock to settle the Purchase contracts.
- (b) The Treasury Stock Method was applied to non-participating share-based payment awards.

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

	2016
Stock-based compensation plans (a)	3,224
DRIP	1,562

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

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

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

	2016	2015	2014
Stock options	696	1,087	1,816
Performance units	176	36	5
Restricted stock units	—	—	31

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following:

	2016	2015	2014
Domestic income	\$ 1,463	\$ 968	\$ 922
Foreign income	1,087	1,100	1,207
Total	<u>\$ 2,550</u>	<u>\$ 2,068</u>	<u>\$ 2,129</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

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	2016	2015
Deferred Tax Assets		
Deferred investment tax credits	\$ 51	\$ 50
Regulatory liabilities	94	123
Accrued pension costs	250	217
Federal loss carryforwards	565	587
State loss carryforwards	326	319
Federal and state tax credit carryforwards	256	201
Foreign capital loss carryforwards	302	387
Foreign loss carryforwards	3	4
Foreign - pensions	41	171
Foreign - regulatory obligations	6	12
Foreign - other	5	8
Contributions in aid of construction	141	139
Domestic - other	188	209
Unrealized losses on qualifying derivatives	20	15
Valuation allowances (a)	(593)	(662)
Total deferred tax assets	<u>1,655</u>	<u>1,780</u>
Deferred Tax Liabilities		
Domestic plant - net	4,325	3,875
Taxes recoverable through future rates	170	162
Regulatory assets	343	332
Reacquired debt costs	25	28
Foreign plant - net	640	777
Domestic - other	14	24
Total deferred tax liabilities	<u>5,517</u>	<u>5,198</u>
Net deferred tax liability	<u>\$ 3,862</u>	<u>\$ 3,418</u>

(a) Includes \$77 million of deferred tax assets related to state loss carryforwards and related valuation allowances previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, \$27 million and \$22 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2016 and 2015.

At December 31, 2016, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	\$ 1,583	\$ 554	\$ —	2029-2035
Federal charitable contributions	28	11	—	2020-2021
State net operating losses	5,387	325	(269)	2017-2036
State charitable contributions	12	1	—	2017-2021
Foreign net operating losses	17	3	(3)	Indefinite
Foreign capital losses	1,783	302	(302)	Indefinite
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit		30	—	Indefinite
Federal foreign tax credits		62	(3)	2024-2025
Federal - other		30	(11)	2017-2036
State - other		1	—	Indefinite

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

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	Balance at Beginning of Period	Additions			Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts			
2016	\$ 662	\$ 17	\$ 2	\$ 88 (a)	\$ 593	
2015	622	24	77 (b)	61 (a)	662	
2014	585	57	6	26	622	

- (a) The reductions of the U.K. statutory income tax rates in 2016 and 2015 resulted in \$19 million and \$44 million in reductions in the deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts 2016 and 2015. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately \$65 million due to the effect of foreign currency exchange rates.
- (b) Valuation allowance related to the deferred tax assets previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD as management has determined that the earnings are indefinitely reinvested for accounting purposes. Current year distributions from WPD to the U.S. are sourced from a portion of current year's earnings of the WPD group. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2016 and 2015 were \$5.5 billion and \$4.6 billion. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	\$ (14)	\$ (26)	\$ 18
Current - State	21	25	26
Current - Foreign	80	89	152
Total Current Expense	87	88	196
Deferred - Federal	385	699	299
Deferred - State	89	68	120
Deferred - Foreign	86	41	96
Total Deferred Expense, excluding operating loss carryforwards	560	808	515
Amortization of investment tax credit	(3)	(4)	(5)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (a)	25	(396)	8
Deferred - State	(21)	(31)	(22)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	4	(427)	(14)
Total income taxes from continuing operations	\$ 648	\$ 465	\$ 692
Total income tax expense - Federal	\$ 393	\$ 273	\$ 320
Total income tax expense - State	89	62	124
Total income tax expense - Foreign	166	130	248
Total income taxes from continuing operations	\$ 648	\$ 465	\$ 692

- (a) Increase in Federal loss carryforwards for 2015 primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to provision to return adjustments.

In the table above, the following income tax expense (benefits) are excluded from income taxes from continuing operations:

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	2016	2015	2014
Discontinued operations - PPL Energy Supply Segment	\$ —	\$ (30)	\$ 198
Stock-based compensation recorded to Additional Paid-in Capital	—	—	(4)
Stock-based compensation recorded to Earnings Reinvested	(7)	—	—
Other comprehensive income	(6)	(2)	(190)
Valuation allowance on state deferred taxes recorded to other comprehensive income	1	(4)	—
Total	<u>\$ (12)</u>	<u>\$ (36)</u>	<u>\$ 4</u>
	2016	2015	2014
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 893	\$ 724	\$ 745
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	46	31	28
Valuation allowance adjustments (a)	16	24	55
Impact of lower U.K. income tax rates (b)	(177)	(176)	(180)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	(42)	8	63
Federal and state tax reserves adjustments (d)	—	(22)	(1)
Impact of the U.K. Finance Acts on deferred tax balances (b)	(49)	(91)	(1)
Depreciation not normalized	(10)	(5)	(7)
Interest benefit on U.K. financing entities	(17)	(20)	(5)
Stock-based compensation (e)	(10)	—	—
Other	(2)	(8)	(5)
Total increase (decrease)	<u>(245)</u>	<u>(259)</u>	<u>(53)</u>
Total income taxes from continuing operations	<u>\$ 648</u>	<u>\$ 465</u>	<u>\$ 692</u>
Effective income tax rate	<u>25.4%</u>	<u>22.5%</u>	<u>32.5%</u>

(a) During 2016, PPL recorded deferred tax expense for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded \$24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of \$12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and \$12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

As a result of the PPL Energy Supply spinoff announcement, PPL recorded \$50 million of deferred income tax expense during 2014, to adjust the valuation allowance on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.

(b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2015, related to both rate decreases.

(c) During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

During 2015, PPL recorded lower income taxes primarily attributable to a decrease in taxable dividends.

During 2014, PPL recorded \$47 million of income tax expense primarily attributable to taxable dividends.

(d) During 2015, PPL recorded a \$12 million tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

(e) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
State gross receipts (a)	\$ 100	\$ 89	\$ 102
Foreign property	135	148	157
Domestic Other	66	62	58
Total	<u>\$ 301</u>	<u>\$ 299</u>	<u>\$ 317</u>

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of \$17 million of previously recognized reserves.

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(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Accrued pension costs	\$ 107	\$ 92
Contributions in aid of construction	112	111
Regulatory liabilities	34	56
State loss carryforwards	22	27
Federal loss carryforwards	147	146
Other	81	87
Total deferred tax assets	503	519
Deferred Tax Liabilities		
Electric utility plant - net	2,001	1,803
Taxes recoverable through future rates	141	135
Reacquired debt costs	15	18
Regulatory assets	240	213
Other	5	13
Total deferred tax liabilities	2,402	2,182
Net deferred tax liability	\$ 1,899	\$ 1,663

At December 31, 2016, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards			
Federal net operating losses	\$ 411	\$ 144	2031-2035
Federal charitable contributions	5	2	2020-2021
State net operating losses (a)	327	21	2030-2032
State charitable contributions	11	1	2017-2021

(a) An immaterial amount of valuation allowances has been recorded against the deferred tax asset for state contributions.

Credit carryforwards were insignificant at December 31, 2016.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	\$ (29)	\$ (80)	\$ 60
Current - State	19	23	15
Total Current Expense (Benefit)	(10)	(57)	75
Deferred - Federal	193	287	70
Deferred - State	29	12	16
Total Deferred Expense, excluding operating loss carryforwards	222	299	86

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	2016	2015	2014
Amortization of investment tax credit	—	—	(1)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	(75)	—
Deferred - State	—	(3)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	(78)	—
Total income tax expense	\$ 212	\$ 164	\$ 160
Total income tax expense - Federal	\$ 164	\$ 132	\$ 129
Total income tax expense - State	48	32	31
Total income tax expense	\$ 212	\$ 164	\$ 160
	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 193	\$ 146	\$ 148
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	36	25	22
Depreciation not normalized	(8)	(4)	(6)
Stock-based compensation (a)	(6)	—	—
Other	(3)	(3)	(4)
Total increase (decrease)	19	18	12
Total income tax expense	\$ 212	\$ 164	\$ 160
Effective income tax rate	38.4%	39.4%	37.8%

(a) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
State gross receipts (a)	\$ 100	\$ 89	\$ 102
Property and other	5	5	5
Total	\$ 105	\$ 94	\$ 107

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of \$17 million of previously recognized reserves.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	\$ 248	\$ 280
State loss carryforwards	35	35
Tax credit carryforwards	186	181
Contributions in aid of construction	29	29
Regulatory liabilities	60	66
Accrued pension costs	58	53
Income taxes due to customers	15	17
Deferred investment tax credits	51	50
Derivative liability	12	18
Other	49	55
Valuation allowances	(11)	(12)
Total deferred tax assets	732	772
Deferred Tax Liabilities		
Plant - net	2,352	2,105
Regulatory assets	102	119
Other	13	11
Total deferred tax liabilities	2,467	2,235
Net deferred tax liability	\$ 1,735	\$ 1,463

At December 31, 2016, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	\$ 709	\$ 248	\$ —	2029-2035
Federal contribution carryforwards	11	4	—	2020-2021
State net operating losses	907	35	—	2028-2036
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit		27	—	Indefinite
Federal - other		26	(11)	2017-2036
State - other		1	—	Indefinite

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2016	\$ 12	\$ —	\$ 1 (a)	\$ 11
2015	—	12 (b)	—	12
2014	4	—	4 (c)	—

(a) Federal tax credit expiring in 2016.

(b) Federal tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.

(c) Primarily related to the expiration of state capital loss carryforwards.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of

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"Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	\$ (36)	\$ 2	\$ (247)
Current - State	1	1	8
Total Current Expense (Benefit)	(35)	3	(239)
Deferred - Federal	248	405	437
Deferred - State	38	32	23
Total Deferred Expense, excluding benefits of operating loss carryforwards	286	437	460
Amortization of investment tax credit - Federal	(3)	(3)	(4)
Tax benefit of operating loss carryforwards			
Deferred - Federal	10	(198)	(8)
Deferred - State	(1)	—	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	9	(198)	(8)
Total income tax expense from continuing operations (a)	\$ 257	\$ 239	\$ 209
Total income tax expense - Federal	\$ 219	\$ 206	\$ 178
Total income tax expense - State	38	33	31
Total income tax expense from continuing operations (a)	\$ 257	\$ 239	\$ 209

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of less than \$1 million in 2016, 2015 and 2014. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of \$(16) million in 2016, less than \$(1) million in 2015 and \$(36) million in 2014.

	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 240	\$ 211	\$ 194
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	25	22	20
Amortization of investment tax credit	(3)	(3)	(4)
Valuation allowance adjustment (a)	—	12	—
Stock-based compensation (b)	(3)	—	—
Other	(2)	(3)	(1)
Total increase	17	28	15
Total income tax expense	\$ 257	\$ 239	\$ 209
Effective income tax rate	37.5%	39.6%	37.8%

(a) Represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.

(b) During 2016, LKE recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
Property and other	\$ 62	\$ 57	\$ 52
Total	\$ 62	\$ 57	\$ 52

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	\$ 80	\$ 76
Contributions in aid of constructions	18	18
Regulatory liabilities	34	38
Deferred investment tax credits	14	13
Income taxes due to customers	17	17
Derivative liability	12	18
Other	17	15
Total deferred tax assets	192	195
Deferred Tax Liabilities		
Plant - net	1,058	914
Regulatory assets	65	75
Accrued pension costs	35	28
Other	8	7
Total deferred tax liabilities	1,166	1,024
Net deferred tax liability	\$ 974	\$ 829

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2016, LG&E had \$229 million of federal net operating loss carryforwards that expire in 2035, \$7 million of federal contribution carryforwards that expire from 2020 to 2021 and \$5 million of federal credit carryforwards that expire from 2034 to 2036.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	\$ (22)	\$ (15)	\$ (25)
Current - State	1	3	10
Total Current Benefit	(21)	(12)	(15)
Deferred - Federal	134	190	114
Deferred - State	18	13	6
Total Deferred Expense, excluding benefits of operating loss carryforwards	152	203	120
Amortization of investment tax credit - Federal	(1)	(1)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(4)	(76)	—
Total Tax Benefit of Operating Loss Carryforwards	(4)	(76)	—
Total income tax expense	\$ 126	\$ 114	\$ 103
Total income tax expense - Federal	\$ 107	\$ 98	\$ 87
Total income tax expense - State	19	16	16
Total income tax expense	\$ 126	\$ 114	\$ 103

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	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at			
statutory tax rate - 35%	\$ 115	\$ 105	\$ 95
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	11	10
Amortization of investment tax credit	(1)	(1)	(2)
Other	—	(1)	—
Total increase	11	9	8
Total income tax expense	\$ 126	\$ 114	\$ 103
Effective income tax rate	38.3%	38.1%	37.9%
	2016	2015	2014
Taxes, other than income			
Property and other	\$ 32	\$ 28	\$ 25
Total	\$ 32	\$ 28	\$ 25

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	\$ 79	\$ 97
Contributions in aid of construction	11	11
Regulatory liabilities	26	28
Deferred investment tax credits	37	36
Other	11	7
Total deferred tax assets	164	179
Deferred Tax Liabilities		
Plant - net	1,280	1,175
Regulatory assets	37	44
Accrued pension costs	12	4
Other	5	2
Total deferred tax liabilities	1,334	1,225
Net deferred tax liability	\$ 1,170	\$ 1,046

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2016, KU had \$227 million of federal net operating loss carryforwards that expire in 2035 and \$5 million of federal credit carryforwards that expire from 2034 to 2036.

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Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	\$ 31	\$ (21)	\$ (95)
Current - State	5	1	6
Total Current Expense (Benefit)	36	(20)	(89)
Deferred - Federal	131	240	212
Deferred - State	19	19	14
Total Deferred Expense, excluding benefits of operating loss carryforwards	150	259	226
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(21)	(97)	—
Total Tax Benefit of Operating Loss Carryforwards	(21)	(97)	—
Total income tax expense (a)	\$ 163	\$ 140	\$ 135
Total income tax expense - Federal	\$ 139	\$ 120	\$ 115
Total income tax expense - State	24	20	20
Total income tax expense (a)	\$ 163	\$ 140	\$ 135

(a) Excludes deferred federal and state tax expense (benefit) recorded to OCI of less than \$(1) million in 2016, 2015 and 2014.

	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 150	\$ 131	\$ 124
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	16	13	13
Amortization of investment tax credit	(2)	(2)	(2)
Other	(1)	(2)	—
Total increase	13	9	11
Total income tax expense	\$ 163	\$ 140	\$ 135
Effective income tax rate	38.1%	37.4%	38.0%
Taxes, other than income			
Property and other	\$ 30	\$ 29	\$ 27
Total	\$ 30	\$ 29	\$ 27

Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2016, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2012 and prior				
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2011 and prior		2011 and prior	2011 and prior	2011 and prior
U.K. (foreign)	2013 and prior				

Other (PPL)

In 2015, PPL recorded a tax benefit of \$24 million, related to the settlement of the IRS audit for tax years 1998-2011. Of this amount, \$12 million is reflected in continuing operations. PPL finalized the settlement of interest in 2016 and recorded an additional \$3 million tax benefit.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date.

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

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

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates. Therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

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(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31,:

	PPL		PPL Electric			
	2016	2015	2016	2015		
Current Regulatory Assets:						
Environmental cost recovery	\$ 6	\$ 24	\$ —	\$ —		
Generation formula rate	11	7	—	—		
Transmission service charge	7	10	7	10		
Smart meter rider	6	2	6	2		
Storm costs	5	—	5	—		
Other	4	5	1	1		
Total current regulatory assets (a)	\$ 39	\$ 48	\$ 19	\$ 13		
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 947	\$ 809	\$ 549	\$ 469		
Taxes recoverable through future rates	340	326	340	326		
Storm costs	57	93	9	30		
Unamortized loss on debt	61	68	36	42		
Interest rate swaps	129	141	—	—		
Accumulated cost of removal of utility plant	159	137	159	137		
AROs	211	143	—	—		
Other	14	16	1	2		
Total noncurrent regulatory assets	\$ 1,918	\$ 1,733	\$ 1,094	\$ 1,006		
Current Regulatory Liabilities:						
Generation supply charge	\$ 23	\$ 41	\$ 23	\$ 41		
Demand side management	3	8	—	—		
Gas supply clause	—	6	—	—		
Universal service rider	14	5	14	5		
Transmission formula rate	15	48	15	48		
Fuel adjustment clause	11	14	—	—		
Act 129 compliance rider	17	—	17	—		
Storm damage expense	13	16	13	16		
Other	5	7	1	3		
Total current regulatory liabilities	\$ 101	\$ 145	\$ 83	\$ 113		
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 700	\$ 691	\$ —	\$ —		
Coal contracts (b)	—	17	—	—		
Power purchase agreement - OVEC (b)	75	83	—	—		
Net deferred tax assets	23	23	—	—		
Act 129 compliance rider	—	22	—	22		
Defined benefit plans	23	24	—	—		
Interest rate swaps	78	82	—	—		
Other	—	3	—	—		
Total noncurrent regulatory liabilities	\$ 899	\$ 945	\$ —	\$ 22		
Current Regulatory Assets:						
	LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015
Environmental cost recovery	\$ 6	\$ 24	\$ 6	\$ 13	\$ —	\$ 11
Generation formula rate	11	7	—	—	11	7
Other	3	4	3	3	—	1
Total current regulatory assets	\$ 20	\$ 35	\$ 9	\$ 16	\$ 11	\$ 19

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	LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 398	\$ 340	\$ 246	\$ 215	\$ 152	\$ 125
Storm costs	48	63	26	35	22	28
Unamortized loss on debt	25	26	16	17	9	9
Interest rate swaps	129	141	88	98	41	43
AROs	211	143	70	57	141	86
Plant retirement costs	4	6	—	—	4	6
Other	9	8	4	2	5	6
Total noncurrent regulatory assets	\$ 824	\$ 727	\$ 450	\$ 424	\$ 374	\$ 303
Current Regulatory Liabilities:						
Demand side management	\$ 3	\$ 8	\$ 2	\$ 4	\$ 1	\$ 4
Gas supply clause	—	6	—	6	—	—
Fuel adjustment clause	11	14	2	2	9	12
Other	4	4	1	1	3	3
Total current regulatory liabilities	\$ 18	\$ 32	\$ 5	\$ 13	\$ 13	\$ 19
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 700	\$ 691	\$ 305	\$ 301	\$ 395	\$ 390
Coal contracts (b)	—	17	—	7	—	10
Power purchase agreement - OVEC (b)	75	83	52	57	23	26
Net deferred tax assets	23	23	23	23	—	—
Defined benefit plans	23	24	—	—	23	24
Interest rate swaps	78	82	39	41	39	41
Other	—	3	—	2	—	1
Total noncurrent regulatory liabilities	\$ 899	\$ 923	\$ 419	\$ 431	\$ 480	\$ 492

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

(b) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent the portion of unrecognized transition obligation, prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of \$58 million for PPL, \$25 million for PPL Electric, \$33 million for LKE, \$22 million for LG&E and \$11 million for KU, are expected to be amortized into net periodic defined benefit costs in 2017 in accordance with PPL's, PPL Electric's, LKE's, LG&E's and KU's pension accounting policy.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2016, the balances were \$20 million for PPL and LKE, \$11 million for LG&E and \$9 million for KU. Of the costs expected to be amortized into net periodic defined benefit costs in 2017, \$14 million for PPL and LKE, \$8 million for LG&E and \$6 million for KU, are expected to be recorded as a regulatory asset in 2017.

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(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's, LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2020.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for PPL, LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually

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through base rates will be set at \$15 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than \$15 million recovered annually through base rates. Beginning January 1, 2018, the amortized 2011 storm expense of \$5 million will be included in the base rate component of the SDER.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allowed PPL Electric to recover the maximum \$250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allowed PPL Electric to recover the maximum \$185 million cost of the program over the three year period June 1, 2013 through May 31, 2016. Phase III of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum \$313 million over the next five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The Phase II program costs were reconciled at the end of the program and any remaining over- or under-recovery was rolled into Phase III. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Smart Meter Rider (SMR)

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the requirements of Act 129. In June 2014, PPL Electric filed a plan with the PUC to replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. The SMR contains a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, LG&E and KU were authorized to earn a 10% return on equity for all existing ECR plans. On August 8, 2016, the KPSC issued an order establishing a 9.8% authorized return

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on equity for the 2016 plan projects that pertain to the handling of coal combustion byproducts and MATS. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs, intended to reduce peak demand and delay investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision, which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs and incentives, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management and demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities were amortized over the same terms as the related contracts, which expired at various times through 2016.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Regulatory Liability Associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized.

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Interest Rate Swaps

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL that have terms identical to forward-starting swaps entered into by PPL with third parties. Net realized gains and losses on all of these swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded. In September 2015, first mortgage bonds totaling \$1.05 billion were issued (LG&E issued \$550 million and KU issued \$500 million) and all outstanding forward-starting interest rate swaps were terminated. Net cash settlements of \$88 million were paid on the swaps that were terminated (LG&E and KU each paid \$44 million). Net realized losses on these terminated swaps will be recovered through regulated rates. As such, the net settlements were recorded in regulatory assets and are being recognized in "Interest Expense" on the Statements of Income over the life of the new debt that matures in 2025 and 2045. There were no forward starting interest rate swaps outstanding at December 31, 2016. See Note 17 for additional information related to the forward-starting interest rate swaps.

Net cash settlements of \$86 million were received on forward starting interest rate swaps that were terminated in 2013 (LG&E and KU each received \$43 million). Net realized gains on these terminated swaps will be returned through regulated rates. As such, the net settlements were recorded as regulatory liabilities and are being recognized in "Interest Expense" on the Statements of Income over the life of the associated debt that matures in 2043.

(PPL, LKE and LG&E)

A net cash settlement of \$9 million paid on a swap that was terminated by LG&E in December 2016 is included in "Cash Flows from Operating Activities" on the Statements of Cash Flows. The KPSC authorized the recording of a regulatory asset and the recovery of such costs is being sought in the current rate case filed in November 2016.

In addition to the terminated interest rate swaps, realized amounts associated with LG&E's other interest rate swaps, including a swap contract terminated in 2008, are recoverable through rates based on an order from the KPSC. LG&E's unrealized losses and gains are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the loss related to the 2008 terminated swap contract, which is expensed to "Other operation and maintenance", is to be recovered through 2035.

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As a result of the 2014 Kentucky rate case settlement, effective July 1, 2015, LG&E is authorized to earn a 10% return on equity for the GLT mechanism. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, LG&E has requested additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. LG&E annually files revised rates based on projected costs in October with rates effective on the first billing cycle in January. After the completion of a plan year, LG&E submits a balancing adjustment filing to the KPSC to amend rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

(PPL, LKE and KU)

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Plant Retirement Costs

The 2014 Kentucky rate case settlement that became effective July 1, 2015, provided for deferred recovery of costs associated with Green River's remaining coal-fired generating units through their retirement date, which occurred in September 2015. These costs include inventory write-downs and separation benefits and are being amortized over three years.

Regulatory Matters

(PPL)

U.K. Activities

RIIO-ED1

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs.

Ofgem Review of Line Loss Calculation

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during 2014 WPD increased its liability by \$65 million for over-recovery of line losses with a reduction to "Operating Revenues" on the Statement of Income. Other activity impacting the liability included reductions in the liability that has been included in tariffs and foreign exchange movements. WPD began refunding the liability to customers on April 1, 2015 and will continue through March 31, 2019. The liability at December 31, 2016 and 2015 was \$26 million and \$61 million.

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

CPCN and ECR Filings

On August 8, 2016, the KPSC issued an order approving CPCNs and ECR rate treatment regarding environmental construction projects relating to the EPA's regulations addressing the handling of coal combustion by-products and MATS. The construction projects began in 2016 and are expected to continue through 2023. The KPSC order established a 9.8% authorized return on equity for these projects. Recovery of costs commenced with bills rendered on and after August 31, 2016.

(LKE and LG&E)

Gas Franchise

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

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

(PPL and PPL Electric)

Pennsylvania Activities

Rate Case Proceeding

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately \$168 million. The application was based on a fully projected future test year of January 1, 2016 through December 31, 2016. On September 3, 2015, PPL Electric filed with the PUC Administrative Law Judge a petition for approval of a settlement agreement under which PPL Electric would be permitted to increase its annual distribution rates by \$124 million, effective January 1, 2016. On November 19, 2015, the PUC entered a final order adopting the Administrative Law Judge's recommended decision. The new rates became effective January 1, 2016.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In June 2016, the PUC approved PPL Electric's Phase III Plan, allowing PPL Electric to implement its energy efficiency and demand response programs and recover, through the Act 129 compliance rider, the \$313 million cost of the programs over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

PPL Electric has received PUC approval of its biannual DSP procurement plans for all prior periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. The parties to the proceeding reached a settlement on all but one issue, and a partial settlement agreement and briefs on the open issue were submitted to the Administrative Law Judge (ALJ) in July 2016. In August 2016, the ALJ issued an initial decision, and certain parties filed exceptions and reply exceptions. In October 2016, the PUC issued an order approving the partial settlement agreement and adopting the initial decision with minor modifications. In November 2016, Retail Electric Supply Association (RESA) filed a Petition for Reconsideration of the portion of the October 2016 order that approved the Customer Assistance Program Standard Offer Referral Program. In January 2017, the PUC issued an order denying RESA's Petition for Reconsideration and closing the record.

Federal Matters

(PPL and PPL Electric)

FERC Formula Rate

In May 2016, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement. The filing establishes the revenue requirement used to set rates that took effect in June 2016. The time period for any challenges to PPL Electric's annual update expired in October 2016. No challenges were submitted.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

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

	December 31, 2016					December 31, 2015		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a) (c)	Jan. 2021	£ 210	£ 160	£ —	£ 49	£ 133	£ —	
WPD (South West)								
Syndicated Credit Facility (a) (c)	July 2021	245	110	—	135	—	—	
WPD (East Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	9	—	291	—	—	
WPD (West Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	—	—	300	—	—	
Uncommitted Credit Facilities		90	60	4	26	—	4	
Total U.K. Credit Facilities (b)		£ 1,145	£ 339	£ 4	£ 801	£ 133	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility (c) (d)	Jan. 2021	\$ 950	\$ —	\$ 20	\$ 930	\$ —	\$ 151	
Syndicated Credit Facility (c) (d)	Nov. 2018	300	—	—	300	—	300	
Bilateral Credit Facility (c) (d)	Mar. 2017	150	—	17	133	—	20	
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$ —	\$ 37	\$ 1,363	\$ —	\$ 471	
PPL Electric								
Syndicated Credit Facility (c) (d)	Jan. 2021	\$ 650	\$ —	\$ 296	\$ 354	\$ —	\$ 1	
LKE								
Syndicated Credit Facility (c) (d) (f)	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ 75	\$ —	
LG&E								
Syndicated Credit Facility (c) (d)	Dec. 2020	\$ 500	\$ —	\$ 169	\$ 331	\$ —	\$ 142	
KU								
Syndicated Credit Facility (c) (d)	Dec. 2020	\$ 400	\$ —	\$ 16	\$ 384	\$ —	\$ 48	
Letter of Credit Facility (c) (d) (e)	Oct. 2017	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 214	\$ 384	\$ —	\$ 246	

- (a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (b) The WPD plc amounts borrowed at December 31, 2016 and 2015 included USD-denominated borrowings of \$200 million for both periods, which bore interest at 1.43% and 1.83%. The unused capacity reflects the amount borrowed in GBP of £161 million as of the date borrowed. The WPD (South West) amount borrowed at December 31, 2016 was a GBP-denominated borrowing, which equated to \$137 million and bore interest at 0.66%. The WPD (East Midlands) amount borrowed at December 31, 2016 was a GBP-denominated borrowing, which equated to \$11 million and bore interest at 0.66%. The WPD Uncommitted Credit Facilities amounts borrowed at December 31, 2016 were GBP-denominated borrowings which equated to \$75 million and bore interest at 1.26%. At December 31, 2016, the unused capacity under the U.K. credit facilities was approximately \$1 billion.
- (c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facilities expiring in November 2018 and March 2017

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be increased by up to \$30 million, LG&E and KU each may request up to a \$100 million increase in its facility's capacity and LKE may request up to a \$25 million increase in its facility's capacity.

- (e) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (f) At December 31, 2015, LKE's interest rate on outstanding borrowings was 1.68%.

In January 2017, the expiration dates for PPL Capital Funding and PPL Electric syndicated credit facilities expiring in January 2021, and the LG&E and KU syndicated credit facilities expiring in December 2020, were extended to January 2022.

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

	December 31, 2016				December 31, 2015	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.10%	\$ 1,000	\$ 20	\$ 980	0.78%	\$ 451
PPL Electric	1.05%	400	295	105		—
LG&E	0.94%	350	169	181	0.71%	142
KU	0.87%	350	16	334	0.72%	48
Total		\$ 2,100	\$ 500	\$ 1,600		\$ 641

In January 2017, PPL Electric's commercial paper program capacity was increased to \$650 million.

(PPL and LKE)

See Note 14 for discussion of intercompany borrowings.

Long-term Debt (All Registrants)

	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2016	2015
PPL				
U.S.				
Senior Unsecured Notes	3.75%	2018 - 2044	\$ 4,075	\$ 3,425
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.88%	2017 - 2045	6,849	6,874
Junior Subordinated Notes	6.31%	2067 - 2073	930	930
Total U.S. Long-term Debt			11,854	11,229
U.K.				
Senior Unsecured Notes (d)	5.44%	2017 - 2040	5,707	7,170
Index-linked Senior Unsecured Notes (e)	1.67%	2026 - 2056	838	772
Total U.K. Long-term Debt (f)			6,545	7,942
Total Long-term Debt Before Adjustments			18,399	19,171
Fair market value adjustments			22	30
Unamortized premium and (discount), net (e)			20	(28)
Unamortized debt issuance costs			(115)	(125)
Total Long-term Debt			18,326	19,048
Less current portion of Long-term Debt			518	485
Total Long-term Debt, noncurrent			\$ 17,808	\$ 18,563

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	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2016	2015
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.20%	2017 - 2045	\$ 2,864	\$ 2,864
Total Long-term Debt Before Adjustments			2,864	2,864
Unamortized discount			(12)	(13)
Unamortized debt issuance costs			(21)	(23)
Total Long-term Debt			2,831	2,828
Less current portion of Long-term Debt			224	—
Total Long-term Debt, noncurrent			\$ 2,607	\$ 2,828
LKE				
Senior Unsecured Notes	3.97%	2020 - 2021	\$ 725	\$ 725
First Mortgage Bonds (a) (c)	3.67%	2017 - 2045	3,985	4,010
Long-term debt to affiliate	3.50%	2025	400	400
Total Long-term Debt Before Adjustments			5,110	5,135
Fair market value adjustments			(1)	(1)
Unamortized discount			(15)	(16)
Unamortized debt issuance costs			(29)	(30)
Total Long-term Debt			5,065	5,088
Less current portion of Long-term Debt			194	25
Total Long-term Debt, noncurrent			\$ 4,871	\$ 5,063
LG&E				
First Mortgage Bonds (a) (c)	3.45%	2017 - 2045	\$ 1,634	\$ 1,659
Total Long-term Debt Before Adjustments			1,634	1,659
Fair market value adjustments			(1)	(1)
Unamortized discount			(4)	(4)
Unamortized debt issuance costs			(12)	(12)
Total Long-term Debt			1,617	1,642
Less current portion of Long-term Debt			194	25
Total Long-term Debt, noncurrent			\$ 1,423	\$ 1,617
KU				
First Mortgage Bonds (a) (c)	3.82%	2019 - 2045	\$ 2,351	\$ 2,351
Total Long-term Debt Before Adjustments			2,351	2,351
Unamortized discount			(9)	(10)
Unamortized debt issuance costs			(15)	(15)
Total Long-term Debt			2,327	2,326
Less current portion of Long-term Debt			—	—
Total Long-term Debt, noncurrent			\$ 2,327	\$ 2,326

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$7.6 billion and \$6.7 billion at December 31, 2016 and 2015.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$4.4 billion and \$4.2 billion at December 31, 2016 and 2015.

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- Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$5.8 billion and \$5.7 billion at December 31, 2016 and 2015.
- (b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes \$224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
- (c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2016, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$514 million for LKE, comprised of \$391 million and \$123 million for LG&E and KU, respectively. At December 31, 2016, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$386 million for LKE, comprised of \$158 million and \$228 million for LG&E and KU, respectively.

- Certain of the variable rate tax-exempt revenue bonds totaling \$375 million at December 31, 2016 (\$147 million for LG&E and \$228 million for KU), are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.
- (d) Includes £225 million (\$281 million at December 31, 2016) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (e) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2015 to 2016 was an increase of approximately £10 million (\$13 million) resulting from inflation. In addition, this amount includes £225 million (\$281 million at December 31, 2016) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (f) Includes £4.4 billion (\$5.5 billion at December 31, 2016) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.
- (g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2016.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2017 through 2021 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2017	\$ 518	\$ 224	\$ 194	\$ 194	\$ —
2018	348	—	98	98	—
2019	136	—	136	40	96
2020	1,262	100	975	—	500
2021	1,150	400	250	—	—
Thereafter	14,985	2,140	3,457	1,302	1,755
Total	\$ 18,399	\$ 2,864	\$ 5,110	\$ 1,634	\$ 2,351

(PPL)

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a \$9 million loss on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the \$228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and excluded from the Statement of Cash Flows for the year ended December 31, 2014. Additionally, in May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

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In May 2016, PPL Capital Funding issued \$650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of \$645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new 10-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire \$460 million principal amount of its 3.90% Senior Notes upon maturity.

In October 2016, WPD (East Midlands) issued an additional £40 million of its 2.671% Index-linked Senior Notes due 2043. WPD (East Midlands) received proceeds of £83 million, which equated to \$101 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The proceeds will be used for general corporate purposes.

(PPL and PPL Electric)

In March 2016, the LCIDA issued \$116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and \$108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at PPL Electric's option. The proceeds of the bonds were used to redeem \$116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and \$108 million of 4.75% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued \$224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

(PPL, LKE and LG&E)

In September 2016, the County of Trimble, Kentucky issued \$125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) due 2044 on behalf of LG&E. The bonds were issued with a floating interest rate that initially will reset weekly. The method of determining the interest rate on the bonds may be converted from time to time at LG&E's option. The proceeds of the bonds were used to redeem \$83 million of Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2030 and \$42 million of Pollution Control Revenue Refunding Bonds, 2002 Series A (Louisville Gas and Electric Company Project) due 2032 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In December 2016, LG&E redeemed, at par, its \$25 million Jefferson County Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2027.

(PPL, LKE and KU)

In August 2016, the County of Carroll, Kentucky issued \$96 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) due 2042 on behalf of KU. The bonds were issued bearing interest at an initial term rate of 1.05% through their mandatory purchase date of September 1, 2019. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at KU's option. The proceeds of the bonds were used to redeem \$96 million of Pollution Control Revenue Refunding Bonds, 2002 Series C (Kentucky Utilities Company Project) due 2032 previously issued by the County of Carroll, Kentucky on behalf of KU.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not

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satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. PPL issued the following for the years ended December 31:

	2016	2015
Number of shares (in thousands)	710	1,477
Average share price	\$ 35.23	\$ 33.41
Net Proceeds	\$ 25	\$ 49

Distributions and Related Restrictions

In November 2016, PPL declared its quarterly common stock dividend, payable January 3, 2017, at 38 cents per share (equivalent to \$1.52 per annum). On February 1, 2017, PPL announced that the company is increasing its common stock dividend to 39.5 cents per share on a quarterly basis (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2016, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2016, net assets of \$2.7 billion (\$1.1 billion for LG&E and \$1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$3.1 billion (\$1.4 billion for LG&E and \$1.7 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the

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VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results.

(PPL)

Discontinued Operations

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. The transaction was subject to customary closing conditions, including receipt of regulatory approvals from the NRC, FERC, DOJ and PUC, all of which were received by mid-April 2015. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

Loss on Spinoff

In June 2015, in conjunction with the accounting for the spinoff, PPL evaluated whether the fair value of the Supply segment's net assets was less than the carrying value as of the June 1, 2015 spinoff date.

PPL considered several valuation methodologies to derive a fair value estimate of its Supply segment at the spinoff date. These methodologies included considering the closing "when-issued" Talen Energy market value on June 1, 2015 (the spinoff date), adjusted for the proportional share of the equity value attributable to the Supply segment, as well as, the valuation methods consistently used in PPL's quantitative goodwill impairment assessments - an income approach using a discounted cash flow analysis of the Supply segment and an alternative market approach considering market multiples of comparable companies.

Although the Talen Energy market value approach utilized the most observable inputs of the three approaches, PPL considered certain limitations of the "when-issued" trading market for the spinoff transaction including the short trading duration, lack of liquidity in the market and anticipated initial Talen Energy stock ownership base selling pressure, among other factors, and concluded that these factors limited this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

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Approach	Weighting	Weighted Fair Value (in billions)
Talen Energy Market Value	50%	\$ 1.4
Income/Discounted Cash Flow	30%	1.1
Alternative Market (Comparable Company)	20%	0.7
Estimated Fair Value		\$ 3.2

A key assumption included in the fair value estimate is the application of a control premium of 25% in the two market approaches. PPL concluded it was appropriate to apply a control premium in these approaches as the goodwill impairment testing guidance was followed in determining the estimated fair value of the Supply segment, which had historically been a reporting unit for PPL. This guidance provides that the market price of an individual security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit. This guidance also indicates that substantial value may arise to a controlling shareholder from the ability to take advantage of synergies and other benefits that arise from control over another entity, and that the market price of a company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

In determining the control premium, PPL reviewed premiums received during the prior five years in market sales transactions obtained from observable independent power producer and hybrid utility transactions greater than \$1 billion. Premiums for these transactions ranged from 5% to 42% with a median of approximately 25%. Given these metrics, PPL concluded a control premium of 25% to be reasonable for both of the market valuation approaches used.

Assumptions used in the discounted cash flow analysis included forward energy prices, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the Energy Supply portion of the Talen Energy business planning process at that time and a market participant discount rate.

Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (classified as Level 3) was below its carrying value of \$4.1 billion and recorded a loss on the spinoff of \$879 million in the second quarter of 2015, which is reflected in discontinued operations and is nondeductible for tax purposes. This amount served to reduce the basis of the net assets accounted for as a dividend at the June 1, 2015 spinoff date.

Costs of Spinoff

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges of \$36 million for employee separation benefits were recorded related to 306 positions. Of this amount, \$16 million related to 112 Energy Supply positions and is reflected in discontinued operations. The remaining \$20 million is primarily reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income.

In 2015, the organizational structures were finalized for both PPL and Talen Energy, which resulted in an additional charge of \$10 million for employee separation benefits. Of this amount, \$2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining \$8 million is reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. At December 31, 2015, the recorded liability related to the separation benefits was \$13 million, which is included in "Other current liabilities" on the Balance Sheet.

Additional employee-related costs incurred primarily included accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized \$24 million of these costs at the spinoff closing date in 2015, which are reflected in discontinued operations.

PPL recorded \$45 million and \$27 million of third-party costs related to this transaction in 2015 and 2014. Of these costs, \$32 million and \$19 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional \$13 million and \$8 million of consulting and other costs were incurred in 2015 and 2014, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the Statements of Income.

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At the close of the transaction in 2015, \$72 million (\$42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into earnings and reflected in discontinued operations.

As a result of the June 2014 spinoff announcement, PPL recorded \$50 million of deferred income tax expense in 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years from the spinoff date. The TSA sets forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL is providing Talen Energy certain information technology, financial and accounting, human resource and other specified services. PPL billed Talen Energy \$35 million and \$25 million for these services in 2016 and 2015. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff transaction. PPL Electric's supply contracts with Talen Energy Marketing extended through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were \$106 million and \$27 million for 2016 and 2015. These energy purchases are no longer considered affiliate transactions.

(PPL)

Summarized Results of Discontinued Operations

The operations of the Supply segment are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statements of Income for the periods ended December 31:

	2015	2014
Operating revenues	\$ 1,427	\$ 3,848
Operating expenses	1,328	3,410
Other Income (Expense) - net	(21)	13
Interest expense (a)	150	190
Gain on sale of Montana Hydro Sale	—	237
Income tax expense (benefit)	(30)	198
Loss on spinoff	(879)	—
Income (Loss) from Discontinued Operations (net of income taxes)	<u>\$ (921)</u>	<u>\$ 300</u>

(a) Includes interest associated with the Supply segment with no additional allocation as the Supply segment was sufficiently capitalized.

Net assets, after recognition of the loss on the spinoff, of \$3.2 billion were distributed to PPL shareowners in the June 1, 2015, spinoff of PPL Energy Supply.

Montana Hydro Sale

In November 2014, PPL Montana completed the sale to NorthWestern Corporation of 633 MW of hydroelectric generating facilities located in Montana for approximately \$900 million in cash. The proceeds from the sale remained with PPL and did not transfer to Talen Energy as a result of the spinoff of PPL Energy Supply. The sale included 11 hydroelectric power facilities and related assets, included in the Supply segment. A gain of \$237 million (\$137 million after-tax) was recorded on the sale of the hydroelectric power facilities.

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As the Montana hydroelectric power facilities were previously reported as a component of PPL Energy Supply and the Supply segment, the components of discontinued operations for these facilities contained in the Statements of Income are included in the disclosure above.

Development

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kV transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the Pennsylvania portion of the Susquehanna-Roseland line and Public Service Electric & Gas Company to construct the New Jersey portion of the line. The line was energized in May 2015, completing the approximately \$648 million project. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile, 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress costs but denied the requested incentive for a 100 basis point adder to the return on equity.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a final order approving the application. The line was energized in April 2016, completing the approximately \$350 million project, which includes additional substation security enhancements. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

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

The Cane Run Unit 7 NGCC was put into commercial operation in June 2015. As a result and to meet more stringent EPA regulations, LG&E retired one coal-fired generating unit at the Cane Run plant in March 2015 and retired the remaining two coal-fired generating units at the plant in June 2015. KU retired the two remaining coal-fired generating units at the Green River plant in September 2015. LG&E and KU incurred costs of \$11 million and \$6 million directly related to these retirements including inventory write-downs and separation benefits. There were no gains or losses on the retirement of these units. See Note 6 for more information related to the regulatory recovery of the costs associated with the retirement of the Green River units.

In December 2014, a final order was issued by the KPSC approving the request to construct a solar generation facility at the E.W. Brown facility. LG&E and KU completed construction activities and placed a 10 MW facility into commercial operation in June 2016 at a cost of \$25 million.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

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	2016	2015	2014
PPL	\$ 50	\$ 49	\$ 51
LKE	26	24	18
LG&E	15	12	7
KU	11	11	10

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2017	\$ 31	\$ 24	\$ 15	\$ 9
2018	26	22	14	8
2019	16	13	7	6
2020	11	9	4	5
2021	8	6	2	4
Thereafter	26	19	8	10
Total	\$ 118	\$ 93	\$ 50	\$ 42

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
SIP	10,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

Under the SIP, each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICP and the ICPKE are currently paid in cash when dividends are declared by PPL.

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The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock and restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2016	2015	2014
PPL	\$ 33.84	\$ 34.50	\$ 31.50
PPL Electric	34.32	34.41	31.81
LKE	33.73	34.89	30.98

Restricted stock and restricted stock unit activity for 2016 was:

	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,679,475	\$ 29.65
Granted	536,208	33.84
Vested	(869,932)	29.30
Forfeited	(8,726)	32.59
Nonvested, end of period (a)	<u>1,337,025</u>	31.57

PPL Electric		
Nonvested, beginning of period	221,085	\$ 29.48
Transfer between registrants	(10,405)	30.98
Granted	70,486	34.32
Vested	(73,488)	28.91
Forfeited	(3,108)	32.81
Nonvested, end of period	<u>204,570</u>	31.27

LKE		
Nonvested, beginning of period	318,963	\$ 29.65
Transfer between registrants	(24,993)	30.52
Granted	86,987	33.73
Vested	(137,676)	28.76
Nonvested, end of period	<u>243,281</u>	31.53

(a) Excludes 862,337 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	2016	2015	2014
PPL	\$ 30	\$ 28	\$ 11
PPL Electric	3	4	2
LKE	5	4	—

Performance Units

Performance units are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each years' awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee. For performance units granted prior to 2014, the performance units are eligible for pro-rata vesting at the end of the performance period for retirement, disability or death of an employee.

Beginning in 2014, the fair value of performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. The fair value of performance units granted in 2013 and prior years was recognized as compensation expense on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2016	2015	2014
Expected stock volatility	19.60%	15.90%	15.80%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	2016	2015	2014
PPL	\$ 35.74	\$ 36.76	\$ 34.55
PPL Electric	35.68	37.93	34.43
LKE	35.28	37.10	34.12

Performance unit activity for 2016 was:

	Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	993,540	\$ 33.09
Granted	471,401	35.74
Vested	(375,668)	31.96
Forfeited	(18,737)	33.22
Nonvested, end of period (a)	<u>1,070,536</u>	<u>34.65</u>

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	<u>Performance Units</u>	<u>Weighted- Average Grant Date Fair Value Per Share</u>
PPL Electric		
Nonvested, beginning of period	67,671	\$ 33.05
Granted	35,694	35.68
Vested	(23,880)	31.89
Forfeited	(2,759)	31.74
Nonvested, end of period	<u>76,726</u>	34.68
LKE		
Nonvested, beginning of period	193,164	\$ 32.96
Transfer between registrants	(4,432)	35.07
Granted	84,298	35.28
Vested	(70,048)	31.74
Forfeited	(11,381)	33.61
Nonvested, end of period	<u>191,601</u>	34.34

(a) Excludes 230,196 performance units for which the service vesting requirement was waived for former PPL Energy Supply employees as a result of the spinoff, but for which the ultimate number of shares to be distributed will depend on the actual attainment of the performance goals at the end of the specified performance periods.

The total fair value of performance units vesting for the year ended December 31, 2016, 2015 and 2014 was \$12 million, \$6 million and \$5 million for PPL and insignificant for PPL Electric and LKE.

Stock Options

PPL's CGNC eliminated the use of stock options and changed its long-term incentive mix to 60% performance units and 40% performance-contingent restricted stock units, resulting in 100% performance-based long-term incentive mix for equity awards granted beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2016, are fully vested. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2016 was:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted- Average Remaining Contractual Term (years)</u>	<u>Aggregate Total Intrinsic Value</u>
PPL				
Outstanding at beginning of period	6,385,149	\$ 28.54		
Exercised	(1,903,989)	27.51		
Outstanding and exercisable at end of period	<u>4,481,160</u>	28.98	4.4	\$ 29
PPL Electric				
Outstanding at beginning of period	313,433	\$ 27.79		
Exercised	(72,494)	28.84		
Outstanding and exercisable at end of period	<u>240,939</u>	27.48	4.5	\$ 2
LKE				
Outstanding at beginning of period	425,656	\$ 26.08		
Exercised	(363,760)	26.12		
Outstanding and exercisable at end of period	<u>61,896</u>	25.81	5.5	\$ 1

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For 2016, 2015 and 2014, PPL received \$52 million, \$97 million and \$67 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2016, 2015 and 2014 were \$18 million, \$21 million and \$13 million.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2016	2015	2014
PPL	\$ 27	\$ 33	\$ 30
PPL Electric	16	14	12
LKE	7	8	8

See Note 8 for details of the costs recognized in discontinued operations related to the accelerated vesting of awards for former PPL Energy Supply employees.

The income tax benefit related to above compensation expense was as follows:

	2016	2015	2014
PPL	\$ 12	\$ 14	\$ 12
PPL Electric	7	6	5
LKE	3	3	3

At December 31, 2016, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, and performance units was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	\$ 8	1.8
PPL Electric	1	1.8
LKE	1	1.6

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of PPL's subsidiaries domestic employees are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

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PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net periodic defined benefit costs (credits):									
Service cost	\$ 66	\$ 96	\$ 97	\$ 69	\$ 79	\$ 71	\$ 7	\$ 11	\$ 12
Interest cost	174	194	224	235	314	354	26	26	31
Expected return on plan assets	(228)	(258)	(287)	(504)	(523)	(521)	(22)	(26)	(26)
Amortization of:									
Prior service cost (credit)	8	7	20	—	—	—	—	1	—
Actuarial (gain) loss	50	84	28	138	158	132	1	—	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	70	123	82	(62)	28	36	12	12	18
Settlements	3	—	—	—	—	—	—	—	—
Termination benefits	—	—	13	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	\$ 73	\$ 123	\$ 95	\$ (62)	\$ 28	\$ 36	\$ 12	\$ 12	\$ 18
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Divestiture (a)	\$ —	\$ (353)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (6)	\$ —
Settlement	(3)	—	—	—	—	—	—	—	—
Net (gain) loss	253	63	574	7	508	354	9	(9)	22
Prior service cost (credit)	15	18	(8)	—	—	—	—	—	7
Amortization of:									
Prior service (cost) credit	(8)	(7)	(20)	—	—	—	(1)	(1)	—
Actuarial gain (loss)	(50)	(85)	(28)	(138)	(158)	(132)	(1)	—	(1)
Total recognized in OCI and regulatory assets/liabilities (b)	207	(364)	518	(131)	350	222	7	(16)	28
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	\$ 280	\$ (241)	\$ 613	\$ (193)	\$ 378	\$ 258	\$ 19	\$ (4)	\$ 46

(a) As a result of the spinoff of PPL Energy Supply, amounts in AOCI were allocated to certain former active and inactive employees of PPL Energy Supply and included in the distribution. See Note 8 for additional details.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

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For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
OCI	\$ 236	\$ (269)	\$ 319	\$ 7	\$ 12	\$ 7
Regulatory assets/liabilities	(29)	(95)	199	—	(28)	21
Total recognized in OCI and regulatory assets/liabilities	\$ 207	\$ (364)	\$ 518	\$ 7	\$ (16)	\$ 28

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2017 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	\$ 9	\$ —
Actuarial (gain) loss	67	141
Total	\$ 76	\$ 141
Amortization from Balance Sheet:		
AOCI	\$ 18	\$ 141
Regulatory assets/liabilities	58	—
Total	\$ 76	\$ 141

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
Net periodic defined benefit costs (credits):						
Service cost	\$ 23	\$ 26	\$ 21	\$ 5	\$ 5	\$ 4
Interest cost	71	68	66	9	9	9
Expected return on plan assets	(91)	(88)	(82)	(6)	(6)	(4)
Amortization of:						
Prior service cost	8	7	5	3	3	2
Actuarial (gain) loss (a)	21	37	12	(1)	—	(1)
Net periodic defined benefit costs	\$ 32	\$ 50	\$ 22	\$ 10	\$ 11	\$ 10
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	\$ 119	\$ 20	\$ 162	\$ 6	\$ (15)	\$ 26
Prior service cost	—	19	23	—	—	6
Amortization of:						
Prior service credit	(8)	(7)	(5)	(3)	(3)	(2)
Actuarial gain (loss)	(21)	(37)	(12)	1	—	1
Total recognized in OCI and regulatory assets/liabilities	90	(5)	168	4	(18)	31
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	\$ 122	\$ 45	\$ 190	\$ 14	\$ (7)	\$ 41

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$6 million in 2016 and \$9 million in 2015.

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For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
OCI	\$ 42	\$ 4	\$ 84	\$ 2	\$ (2)	\$ 9
Regulatory assets/liabilities	48	(9)	84	2	(16)	22
Total recognized in OCI and regulatory assets/liabilities	\$ 90	\$ (5)	\$ 168	\$ 4	\$ (18)	\$ 31

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2017 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	\$ 8	\$ 1
Actuarial Loss	30	—
Total	\$ 38	\$ 1
Amortization from Balance Sheet:		
AOCI	\$ 5	\$ —
Regulatory assets/liabilities	33	1
Total	\$ 38	\$ 1

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2016	2015	2014
Net periodic defined benefit costs (credits):			
Service cost	\$ 1	\$ 1	\$ 1
Interest cost	15	14	15
Expected return on plan assets	(21)	(20)	(19)
Amortization of:			
Prior service cost	4	3	2
Actuarial loss (a)	7	11	6
Net periodic defined benefit costs	\$ 6	\$ 9	\$ 5
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net loss	\$ 22	\$ 8	\$ 14
Prior service cost	—	10	9
Amortization of:			
Prior service credit	(4)	(3)	(2)
Actuarial gain	(7)	(11)	(6)
Total recognized in regulatory assets/liabilities	11	4	15
Total recognized in net periodic defined benefit costs and regulatory assets	\$ 17	\$ 13	\$ 20

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$5 million in 2016 and \$3 million in 2015.

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The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2017 are as follows.

	Pension Benefits
Prior service cost	\$ 4
Actuarial loss	9
Total	\$ 13

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2016	2015	2014	2016	2015	2014	2016	2015	2014
PPL	\$ 53	\$ 71	\$ 45	\$ (95)	\$ (21)	\$ (9)	\$ 7	\$ 8	\$ 10
PPL Electric (a)	10	15	12				1	—	2
LKE (b)	24	37	17				6	8	7
LG&E (b)	8	12	5				3	4	4
KU (a) (b)	5	9	3				2	2	2

- (a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable.
- (b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts, \$3 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2016 and \$4 million for LG&E and \$1 million for KU were recorded as regulatory assets in 2015.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
LG&E Non-Union Only	\$ 4	\$ 5	\$ 2	\$ 3	\$ 4	\$ 4

(PPL, LKE and LG&E)

PPL, LKE and LG&E adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, PPL, LKE and LG&E updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies.

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The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2016	2015
	2016	2015	2016	2015		
PPL						
Discount rate	4.21%	4.59%	2.87%	3.68%	4.11%	4.48%
Rate of compensation increase	3.95%	3.93%	3.50%	4.00%	3.92%	3.91%
LKE						
Discount rate	4.19%	4.56%			4.12%	4.49%
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%
LG&E						
Discount rate	4.13%	4.49%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2016	2015	2014
	2016	2015	2014	2016	2015	2014			
PPL									
Discount rate service cost (b)	4.59%	4.25%	5.12%	3.90%	3.85%	4.41%	4.48%	4.09%	4.91%
Discount rate interest cost (b)	4.59%	4.25%	5.12%	3.14%	3.85%	4.41%	4.48%	4.09%	4.91%
Rate of compensation increase	3.93%	3.91%	3.97%	4.00%	4.00%	4.00%	3.91%	3.86%	3.96%
Expected return on plan assets (a)	7.00%	7.00%	7.00%	7.20%	7.19%	7.19%	6.11%	6.06%	5.96%
LKE									
Discount rate	4.56%	4.25%	5.18%				4.49%	4.06%	4.91%
Rate of compensation increase	3.50%	3.50%	4.00%				3.50%	3.50%	4.00%
Expected return on plan assets (a)	7.00%	7.00%	7.00%				6.82%	6.82%	6.75%
LG&E									
Discount rate	4.49%	4.20%	5.13%						
Expected return on plan assets (a)	7.00%	7.00%	7.00%						

- (a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.
- (b) As of January 1, 2016, WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 for additional details.

(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2016	2015	2014
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	7.0%	6.8%	7.2%
– cost	6.8%	7.2%	7.6%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0%	5.0%	5.0%
– cost	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate			
– obligations	2022	2020	2020
– cost	2020	2020	2020

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A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2016:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	\$ 5	\$ (5)
LKE	4	(4)

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2016	2015
	2016	2015	2016	2015		
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 3,863	\$ 5,399	\$ 8,404	\$ 8,523	\$ 596	\$ 716
Service cost	66	96	69	79	7	11
Interest cost	174	194	235	314	26	26
Participant contributions	—	—	14	15	14	13
Plan amendments	14	19	—	—	—	—
Actuarial (gain) loss	214	(193)	484	200	11	(37)
Divestiture (a)	—	(1,416)	—	—	—	(76)
Settlements	(9)	—	—	—	—	—
Gross benefits paid	(243)	(236)	(357)	(391)	(64)	(58)
Federal subsidy	—	—	—	—	1	1
Currency conversion	—	—	(1,466)	(336)	—	—
Benefit Obligation, end of period	4,079	3,863	7,383	8,404	591	596
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,227	4,462	7,625	7,734	379	484
Actual return on plan assets	189	2	979	205	25	(2)
Employer contributions	79	158	330	366	19	17
Participant contributions	—	—	14	15	14	13
Divestiture (a)	—	(1,159)	—	—	—	(80)
Settlements	(9)	—	—	—	—	—
Gross benefits paid	(243)	(236)	(357)	(391)	(59)	(53)
Currency conversion	—	—	(1,380)	(304)	—	—
Plan assets at fair value, end of period	3,243	3,227	7,211	7,625	378	379
Funded Status, end of period	\$ (836)	\$ (636)	\$ (172)	\$ (779)	\$ (213)	\$ (217)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	\$ —	\$ —	\$ 10	\$ —	\$ 2	\$ 2
Current liability	(17)	(10)	—	—	(3)	(3)
Noncurrent liability	(819)	(626)	(182)	(779)	(212)	(216)
Net amount recognized, end of period	\$ (836)	\$ (636)	\$ (172)	\$ (779)	\$ (213)	\$ (217)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	\$ 59	\$ 53	\$ —	\$ —	\$ —	\$ 1
Net actuarial (gain) loss	1,178	977	2,553	2,684	45	37
Total (b)	\$ 1,237	\$ 1,030	\$ 2,553	\$ 2,684	\$ 45	\$ 38
Total accumulated benefit obligation for defined benefit pension plans	\$ 3,807	\$ 3,590	\$ 6,780	\$ 7,747		

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- (a) As a result of the spinoff of PPL Energy Supply, obligations and assets attributable to certain former active and inactive employees of PPL Energy Supply were transferred to Talen Energy plans.
 (b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
AOCI	\$ 357	\$ 275	\$ 20	\$ 18
Regulatory assets/liabilities	880	755	25	20
Total	\$ 1,237	\$ 1,030	\$ 45	\$ 38

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2016	2015	2016	2015
Projected benefit obligation	\$ 4,079	\$ 3,863	\$ 3,403	\$ 8,404
Fair value of plan assets	3,243	3,227	3,221	7,625

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2016	2015	2016	2015
Accumulated benefit obligation	\$ 3,807	\$ 3,590	\$ 657	\$ 3,532
Fair value of plan assets	3,243	3,227	643	3,287

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 1,588	\$ 1,608	\$ 216	\$ 234
Service cost	23	26	5	5
Interest cost	71	68	9	9
Participant contributions	—	—	7	7
Plan amendments (a)	—	19	—	—
Actuarial (gain) loss	96	(74)	4	(22)
Gross benefits paid (a)	(109)	(59)	(21)	(18)
Federal subsidy	—	—	—	1
Benefit Obligation, end of period	1,669	1,588	220	216
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,289	1,301	88	82
Actual return on plan assets	69	(7)	4	—
Employer contributions	66	54	20	17
Participant contributions	—	—	7	7
Gross benefits paid	(109)	(59)	(21)	(18)
Plan assets at fair value, end of period	1,315	1,289	98	88
Funded Status, end of period	\$ (354)	\$ (299)	\$ (122)	\$ (128)

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	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	\$ —	\$ —	\$ 2	\$ 2
Current liability	(4)	(3)	(3)	(3)
Noncurrent liability	(350)	(296)	(121)	(127)
Net amount recognized, end of period	<u>\$ (354)</u>	<u>\$ (299)</u>	<u>\$ (122)</u>	<u>\$ (128)</u>
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	\$ 45	\$ 54	\$ 6	\$ 9
Net actuarial (gain) loss	436	338	(13)	(19)
Total	<u>\$ 481</u>	<u>\$ 392</u>	<u>\$ (7)</u>	<u>\$ (10)</u>
Total accumulated benefit obligation for defined benefit pension plans	<u>\$ 1,531</u>	<u>\$ 1,452</u>		

- (a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by \$19 million as a result of the amendment. Gross benefits paid by the plans include \$53 million of lump-sum cash payments made to participants during 2016 in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
AOCI	\$ 111	\$ 70	\$ 8	\$ 7
Regulatory assets/liabilities	370	322	(15)	(17)
Total	<u>\$ 481</u>	<u>\$ 392</u>	<u>\$ (7)</u>	<u>\$ (10)</u>

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2016	2015
Projected benefit obligation	\$ 1,669	\$ 1,588
Fair value of plan assets	1,315	1,289
ABO in excess of plan assets		
	2016	2015
Accumulated benefit obligation	\$ 1,531	\$ 1,452
Fair value of plan assets	1,315	1,289

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2016	2015
Change in Benefit Obligation		
Benefit Obligation, beginning of period	\$ 326	\$ 331
Service cost	1	1
Interest cost	15	14
Plan amendments (a)	—	10
Actuarial (gain) loss	15	(15)
Gross benefits paid (a)	(28)	(15)
Benefit Obligation, end of period	<u>329</u>	<u>326</u>

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	Pension Benefits	
	2016	2015
Change in Plan Assets		
Plan assets at fair value, beginning of period	297	301
Actual return on plan assets	14	(2)
Employer contributions	35	13
Gross benefits paid	(28)	(15)
Plan assets at fair value, end of period	318	297
Funded Status, end of period	\$ (11)	\$ (29)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	\$ (11)	\$ (29)
Net amount recognized, end of period	\$ (11)	\$ (29)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	\$ 25	\$ 29
Net actuarial loss	110	95
Total	\$ 135	\$ 124
Total accumulated benefit obligation for defined benefit pension plan	\$ 329	\$ 326

(a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by \$10 million as a result of the amendment. Gross benefits paid by the plan include \$14 million of lump-sum cash payments made to the participants during 2016 in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2016 and 2015.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2016	2015
Pension	\$ 42	\$ 26
Other postretirement benefits	76	77

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. As a result of the spinoff of PPL Energy Supply in 2015, pension and other postretirement plans were remeasured resulting in adjustments to PPL Electric's allocated balances of \$56 million, reflected as a non-cash contribution on the Statement of Equity. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	2016	2015
Pension	\$ 281	\$ 183
Other postretirement benefits	72	67

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

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	2016	2015
Pension	\$ 62	\$ 46
Other postretirement benefits	40	42

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2016 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2016
	2016 (a)	2015	Target Asset Allocation (a)
Growth Portfolio	52%	51%	50%
Equity securities	30%	25%	
Debt securities (b)	12%	13%	
Alternative investments	10%	13%	
Immunizing Portfolio	46%	47%	48%
Debt securities (b)	43%	42%	
Derivatives	3%	5%	
Liquidity Portfolio	2%	2%	2%
Total	100%	100%	100%

- (a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.3 billion at December 31, 2016 and 2015 represents an interest of approximately 41% and 40% in the Master Trust.

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(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$318 million and \$297 million at December 31, 2016 and 2015 represents an interest of approximately 10% and 9% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	\$ 181	\$ 181	\$ —	\$ —	\$ 225	\$ 225	\$ —	\$ —
Equity securities:								
U.S. Equity	152	152	—	—	172	172	—	—
U.S. Equity fund measured at NAV (a)	272	—	—	—	197	—	—	—
International equity fund at NAV (a)	551	—	—	—	454	—	—	—
Commingled debt measured at NAV (a)	546	—	—	—	514	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	381	381	—	—	501	492	9	—
Corporate	850	—	837	13	747	—	737	10
Other	8	—	8	—	14	—	14	—
Alternative investments:								
Commodities measured at NAV (a)	—	—	—	—	70	—	—	—
Real estate measured at NAV (a)	102	—	—	—	118	—	—	—
Private equity measured at NAV (a)	80	—	—	—	81	—	—	—
Hedge funds measured at NAV (a)	167	—	—	—	171	—	—	—
Derivatives:								
Interest rate swaps and swaptions	61	—	61	—	80	—	80	—
Other	3	—	3	—	11	—	11	—
Insurance contracts	27	—	—	27	32	—	—	32
PPL Services Corporation Master Trust assets, at fair value	3,381	\$ 714	\$ 909	\$ 40	3,387	\$ 889	\$ 851	\$ 42
Receivables and payables, net (b)	(15)				(49)			
401(h) accounts restricted for other postretirement benefit obligations	(123)				(111)			
Total PPL Services Corporation Master Trust pension assets	\$ 3,243				\$ 3,227			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2016 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 10	\$ 32	\$ 42
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	3	(6)	(3)
Balance at end of period	\$ 13	\$ 27	\$ 40

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A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2015 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 21	\$ 33	\$ 54
Actual return on plan assets			
Relating to assets still held at the reporting date	—	2	2
Relating to assets sold during the period	(1)	—	(1)
Purchases, sales and settlements	(10)	(3)	(13)
Balance at end of period	<u>\$ 10</u>	<u>\$ 32</u>	<u>\$ 42</u>

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices and exchange traded funds (ETFs).

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in commodities represent ownership interest of a commingled fund that is invested in a portfolio of exchange-traded futures and forward contracts in commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. Redemptions can be made the 15th calendar day and the last calendar day of the month with a specified notification period. The fund's fair value is based upon a value as calculated by the fund's administrator.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of 10 years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$22 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver

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positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed within 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2016	2015	2016
U.S. Equity securities	48%	48%	45%
Debt securities (a)	50%	50%	50%
Cash and cash equivalents (b)	2%	2%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.

(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

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The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Money market funds	\$ 5	\$ 5	\$ —	\$ —	\$ 6	\$ 6	\$ —	\$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	123	—	—	—	129	—	—	—
Commingled debt fund measured at NAV (a)	114	—	—	—	109	—	—	—
Debt securities:								
Municipalities	12	—	12	—	23	—	23	—
Total VEBA trust assets, at fair value	254	\$ 5	\$ 12	\$ —	267	\$ 6	\$ 23	\$ —
Receivables and payables, net (b)	1				1			
401(h) account assets	123				111			
Total other postretirement benefit plan assets	\$ 378				\$ 379			

- (a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

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The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2016	2015	2016
	Cash and cash equivalents	1%	1%
Equity securities			
U.K.	3%	3%	3%
European (excluding the U.K.)	2%	2%	2%
Asian-Pacific	2%	2%	2%
North American	3%	3%	3%
Emerging markets	3%	4%	1%
Global equities	6%	6%	3%
Currency	—%	1%	—%
Global Tactical Asset Allocation	33%	31%	40%
Debt securities (a)	41%	40%	39%
Alternative investments	6%	7%	6%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 42	\$ 42	\$ —	\$ —	\$ 55	\$ 55	\$ —	\$ —
Equity securities measured at NAV (a) :								
U.K. companies	210	—	—	—	274	—	—	—
European companies (excluding the U.K.)	177	—	—	—	190	—	—	—
Asian-Pacific companies	140	—	—	—	132	—	—	—
North American companies	227	—	—	—	220	—	—	—
Emerging markets companies	209	—	—	—	284	—	—	—
Global Equities	466	—	—	—	500	—	—	—
Currency	—	—	—	—	39	—	—	—
Other	2,363	—	—	—	2,384	—	—	—
Commingled debt:								
U.K. corporate bonds	—	—	—	—	2	—	—	—
U.K. gilts	—	—	—	—	3	—	—	—
Debt Securities:								
U.K. corporate bonds	2	—	2	—	364	—	364	—
U.K. gilts	2,940	—	2,940	—	2,645	—	2,645	—
Alternative investments:								
Real estate measured at NAV (a)	435	—	—	—	533	—	—	—
Fair value - U.K. pension plans	\$ 7,211	\$ 42	\$ 2,942	\$ —	\$ 7,625	\$ 55	\$ 3,009	\$ —

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds, which are considered in the Global Tactical Asset Allocation target.

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U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed \$53 million to its U.S. pension plans in January 2017. No additional contributions are expected in 2017.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$17 million of benefit payments under these plans in 2017.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$14 million to its other postretirement benefit plans in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2017	\$ 251	\$ 52	\$ 1
2018	252	51	1
2019	261	51	1
2020	263	50	—
2021	267	49	—
2022-2026	1,344	228	2

(LKE)

While LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed \$18 million to its pension plans in January 2017. No additional contributions are expected in 2017.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$4 million of benefit payments under these plans in 2017.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected \$14 million to its other postretirement benefit plan in 2017.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

	Other Postretirement		
	Pension	Benefit Payment	Expected Federal Subsidy
2017	\$ 105	\$ 14	\$ —
2018	108	14	—
2019	110	15	1
2020	111	16	—
2021	113	16	—
2022-2026	569	82	2

(LG&E)

LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. There are no contributions expected to be made in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2017	\$ 25
2018	25
2019	25
2020	25
2021	24
2022-2026	110

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuations performed as of March 31, 2013 and March 31, 2016. WPD expects to make contributions of approximately \$389 million in 2017, including \$98 million WPD contributed to its U.K. pension plans in January 2017. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2017	\$ 314
2018	317
2019	322
2020	326
2021	329
2022-2026	1,693

Savings Plans (All Registrants)

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2016	2015	2014
PPL	\$ 35	\$ 34	\$ 33
PPL Electric	6	6	6
LKE	17	16	15
LG&E	5	5	5
KU	4	4	4

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job-related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

See Note 8 for a discussion of separation benefits recognized in 2015 and 2014 related to the spinoff of PPL Energy Supply. Separation benefits were not significant in 2016.

12. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2016 and 2015, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2016				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 407	\$ 55	\$ 1
Trimble County Unit 2	75.00%	1,026	161	83
December 31, 2015				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 399	\$ 44	\$ 6
Trimble County Unit 2	75.00%	1,013	141	27
LG&E				
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 40	\$ 15	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	55	12	1
Trimble County Unit 1	75.00%	407	55	1
Trimble County Unit 2	14.25%	214	32	43
Trimble County Units 5-6	29.00%	30	8	1
Trimble County Units 7-10	37.00%	71	17	1
Cane Run Unit 7	22.00%	114	5	2
E.W. Brown Solar Unit	39.00%	10	—	—
December 31, 2015				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 40	\$ 12	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	47	10	1
Trimble County Unit 1	75.00%	399	44	6
Trimble County Unit 2	14.25%	210	28	12
Trimble County Units 5-6	29.00%	29	6	—
Trimble County Units 7-10	37.00%	71	14	—
Cane Run Unit 7	22.00%	115	1	1
E.W. Brown Solar Unit	39.00%	—	—	4

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	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
KU				
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 65	\$ 23	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	50	11	1
Trimble County Unit 2	60.75%	812	129	40
Trimble County Units 5-6	71.00%	74	19	—
Trimble County Units 7-10	63.00%	121	29	1
Cane Run Unit 7	78.00%	412	18	4
E.W. Brown Solar Unit	61.00%	15	—	—
December 31, 2015				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 65	\$ 19	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	43	9	1
Trimble County Unit 2	60.75%	803	113	15
Trimble County Units 5-6	71.00%	70	15	—
Trimble County Units 7-10	63.00%	121	23	—
Cane Run Unit 7	78.00%	411	6	5
E.W. Brown Solar Unit	61.00%	—	—	6

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

(PPL)

All commitments, contingencies and guarantees associated with PPL Energy Supply and its subsidiaries were retained by Talen Energy and its subsidiaries at the spinoff date without recourse to PPL.

Energy Purchase Commitments (PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2017
Coal	2022
Coal Transportation and Fleeting Services	2024
Natural Gas Storage	2024
Natural Gas Transportation	2026

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LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses are projected as follows:

	<u>LG&E</u>	<u>KU</u>	<u>Total</u>
2017	\$ 20	\$ 9	\$ 29
2018	20	9	29
2019	19	9	28
2020	20	9	29
2021	20	9	29
Thereafter	389	172	561
Total	<u>\$ 488</u>	<u>\$ 217</u>	<u>\$ 705</u>

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
LG&E	\$ 16	\$ 15	\$ 17
KU	7	7	8
Total	<u>\$ 23</u>	<u>\$ 22</u>	<u>\$ 25</u>

Legal Matters

(All Registrants)

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

(PPL and LKE)

WKE Indemnification

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

(PPL, LKE and LG&E)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E, under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

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Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleged that various discharges at the Mill Creek plant constituted violations of the plant's water discharge permit. The Sierra Club sought civil penalties, injunctive relief, costs and attorney's fees. The parties reached a proposed settlement in the matter in September 2016. LG&E has agreed to limited alterations to outfall facilities and discharge practices and to fund \$1 million in environmental enhancement projects focused on tree planting and water quality in Kentucky. The settlement includes no finding or agreement of any violation of law by LG&E and does not involve fines or civil penalties. In December 2016, the court approved the proposed settlement which resolves the pending litigation.

(PPL, LKE and KU)

E.W. Brown Environmental Claims

In October 2015, KU received a notice of intent from Earthjustice and the Sierra Club informing certain federal and state agencies of the Sierra Club's intent to file a citizen suit, following expiration of the mandatory 60-day notification period, for alleged violations of the Clean Water Act. The claimants allege discharges at the E.W. Brown plant in violation of applicable rules and the plant's water discharge permit. The claimants assert that, unless the alleged discharges are promptly brought into compliance, it intends to seek civil penalties, injunctive relief and attorney's fees. In November 2015, the claimants submitted an amended notice of intent to add the Kentucky Waterways Alliance as a claimant. On October 26, 2016, the claimants submitted an additional notice of intent alleging management of waste in a manner that may present an imminent and substantial endangerment under the RCRA. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E. W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Air Permit

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the Trimble County Unit 2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit, which in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

(All Registrants)

Regulatory Issues

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

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Electricity - Reliability Standards

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

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

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

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

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules.

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

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

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

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

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implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

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

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and the EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, worked together to evaluate the need for further nitrogen oxide reductions from fossil-fueled plants with SCRs. Based on regulatory developments to date, PPL, LKE, LG&E, and KU do not anticipate requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Based on regulatory developments to date, PPL, LKE, LG&E and KU expect that certain previously required compliance measures, such as upgraded or new sulfur dioxide scrubbers and additional sulfur dioxide limits at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, are sufficient to achieve compliance with the new sulfur dioxide and ozone standards.

Mercury and Air Toxics Standards (MATS)

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. In a subsequent judicial challenge, the U.S. Supreme Court (Supreme Court) held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The Supreme Court remanded the matter to the D.C. Circuit Court which, in December 2015, remanded the rule to the EPA without vacating it. The EPA has proposed a supplemental finding regarding costs of the rule. The EPA's MATS rule remains in effect during the pendency of the ongoing proceedings.

LG&E and KU have installed significant controls in response to the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU have received KPSC approval for a compliance plan providing for installation of additional MATS-related controls; however, the estimated cost of these controls is not expected to be significant for either LG&E or KU. See Note 6 for additional information.

New Source Review (NSR)

The NSR litigation brought by the EPA, states and environmental groups against coal-fired generating plants in past years continues to proceed through the courts. Although none of this litigation directly involves PPL, LKE, LG&E or KU, it can influence the permitting of large capital projects at LG&E's and KU's power plants, the costs of which cannot presently be determined but could be significant.

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of greenhouse gas (GHG) emissions from both developed and developing nations. Although the

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agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, the new U.S. presidential administration has expressed an intention to review existing Climate Change commitments to determine if changes are warranted. PPL, LKE, LG&E, and KU cannot predict the outcome of such review or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. On February 9, 2016, the Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the Supreme Court if a writ of certiorari is filed and granted.

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

The EPA's Clean Power Plan

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

LG&E and KU are monitoring developments at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. A ruling from the D.C. Circuit Court is expected in 2017. The new U.S. presidential administration has expressed an intention to review the Clean Power Plan and related regulatory developments to determine if changes are warranted. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the new U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable

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energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

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

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

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

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

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. Kentucky has proposed a state rule aimed at reflecting the requirements of the federal rule.

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

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015 and 2016. See Note 19 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

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

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion

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residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Clean Water Act Section 316(b)

The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. The rule requires existing facilities to choose among several options to reduce the impact on aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Based on studies conducted by LG&E and KU to date, all plants will incur only insignificant operational costs. In addition, LG&E's Mill Creek Unit 1 is expected to incur capital costs. PPL, LKE, LG&E and KU do not expect compliance costs, which are subject to rate recovery, to be significant.

Seepages and Groundwater Infiltration

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

(All Registrants)

Waters of the United States (WOTUS)

The U.S. Court of Appeals for the Sixth Circuit has issued a stay of the EPA's rule on the definition of WOTUS pending the court's review of the rule. The effect of the stay is that the WOTUS rule is not in effect anywhere. The ultimate outcome of the court's review of the rule remains uncertain. Because of the strict permitting programs already in place in Kentucky and Pennsylvania, the Registrants do not expect the rule to have a significant impact on their operations.

Other Issues

On June 22, 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. The first, scheduled for March 2017, relates to the use of PCBs in small capacitors and fluorescent ballasts in schools and day care centers. The second, scheduled for October 2017, relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

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

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

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

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

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

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

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

European Union Creosote Ban (PPL)

In 2011, the European Commission amended the European Union Biocides Directive to ban the use of creosote in contact with soil. Creosote is a wood preservative used to extend the life of wooden poles that support power lines. Although European Union member countries were required to pass implementing laws by 2012, the U.K. has not passed an implementing law and there are no legal penalties for failing to do so. The recent U.K. referendum in favor of the U.K.'s departure from the European Union further reduces the likelihood that the U.K. will implement the European Union directive. In the unlikely event that the U.K. were to ban the use of creosote, WPD's creosote-treated wood poles would need to be replaced with an acceptable alternative at the time of routine replacement. Although the aggregate cost to replace poles could be significant, it would be incurred as poles are replaced in the ordinary course and would be subject to rate recovery. WPD has 1.4 million wood poles in its system. There are currently no alternative wood preservatives available that are acceptable to the industry and/or regulators.

Other

(All Registrants)

Labor Union Agreements

For PPL and PPL Electric, labor agreement negotiations with the IBEW commenced in February 2017. The current three-year agreement expires in May 2017.

LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2017 and August 2018. The KU IBEW agreement includes a wage reopener in 2017. KU has 54 employees that are represented by a USWA labor union, under an agreement that expires in August 2017.

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At December 31, 2016, the expiring labor agreements covered the following.

	Number of Union Employees	Percentage of Total Workforce
PPL	2,173	17%
PPL Electric	1,150	63%
LKE	819	23%
LG&E	696	68%
KU	123	13%

The Registrants cannot predict the outcome of the union labor negotiations.

Guarantees and Other Assurances

(All Registrants)

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

(PPL)

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

(All Registrants)

The table below details guarantees provided as of December 31, 2016. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at December 31, 2016 was \$22 million for PPL and \$17 million for LKE. The total recorded liability at December 31, 2015 was \$25 million for PPL and \$18 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at December 31, 2016	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition		(a)
WPD indemnifications for entities in liquidation and sales of assets	\$ 10	(b) 2019
WPD guarantee of pension and other obligations of unconsolidated entities	104	(c)
<u>PPL Electric</u>		
Guarantee of inventory value	14	(d) 2018
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301	(e) 2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC		(f)

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

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations

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- under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 2016, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
 - (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
 - (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
 - (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$123 million at December 31, 2016, consisting of LG&E's share of \$85 million and KU's share of \$38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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

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

14. Related Party Transactions

PLR Contracts/Purchases of Accounts Receivable (PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus was awarded a portion of the PLR generation supply through these competitive solicitations. The purchases from PPL EnergyPlus are included in PPL Electric's Statements of Income as "Energy purchases from affiliate" through May 31, 2015, the period through which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

Wholesale Sales and Purchases (LG&E and KU)

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

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generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

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

PPL Services, PPL EU Services and LKS provide their respective PPL, PPL Electric and LKE subsidiaries and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2016	2015	2014
PPL Electric from PPL Services	\$ 132	\$ 125	\$ 151
LKE from PPL Services	18	16	15
PPL Electric from PPL EU Services	69	60	—
LG&E from LKS	178	155	140
KU from LKS	194	185	165

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

Intercompany Borrowings (*LKE*)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2016 and 2015, \$163 million and \$54 million, respectively, were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2016 and 2015 was 2.12% and 1.74%. Interest expense on the revolving line of credit was not significant for 2016, 2015 or 2014.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2016 and 2015. The interest rate on the loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. Interest income on this note was not significant for 2016, 2015 or 2014.

In November 2015, LKE entered into a \$400 million ten-year-note with a PPL affiliate with an interest rate of 3.5%. The proceeds were used to repay the entire \$400 million principal amount of its 2.125% Senior Unsecured Notes which matured in November 2015. At December 31, 2016 and 2015, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$14 million for 2016. Interest expense on this note was not significant for 2015.

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

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 17 for additional information on intercompany derivatives.

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

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

	2016	2015	2014
Other Income			
Economic foreign currency exchange contracts (Note 17)	\$ 384	\$ 122	\$ 121
Interest income	3	4	1
AFUDC - equity component	19	14	11
Miscellaneous	6	6	7
Total Other Income	412	146	140
Other Expense			
Charitable contributions	9	21	27
Miscellaneous	13	17	8
Total Other Expense	22	38	35
Other Income (Expense) - net	\$ 390	\$ 108	\$ 105

16. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2016 and 2015, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 341	\$ 341	\$ —	\$ —	\$ 836	\$ 836	\$ —	\$ —
Restricted cash and cash equivalents (a)	26	26	—	—	33	33	—	—
Price risk management assets (b):								
Foreign currency contracts	211	—	211	—	209	—	209	—
Cross-currency swaps	188	—	188	—	86	—	86	—
Total price risk management assets	399	—	399	—	295	—	295	—
Auction rate securities (c)	—	—	—	—	2	—	—	2
Total assets	\$ 766	\$ 367	\$ 399	\$ —	\$ 1,166	\$ 869	\$ 295	\$ 2

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	December 31, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 71	\$ —	\$ 71	\$ —
Foreign currency contracts	27	—	27	—	1	—	1	—
Total price risk management liabilities	\$ 58	\$ —	\$ 58	\$ —	\$ 72	\$ —	\$ 72	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 13	\$ 13	\$ —	\$ —	\$ 47	\$ 47	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 15	\$ 15	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 13	\$ 13	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Cash collateral posted to counterparties (d)	3	3	—	—	9	9	—	—
Total assets	\$ 16	\$ 16	\$ —	\$ —	\$ 39	\$ 39	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 47	\$ —	\$ 47	\$ —
Total price risk management liabilities	\$ 31	\$ —	\$ 31	\$ —	\$ 47	\$ —	\$ 47	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 5	\$ 5	\$ —	\$ —	\$ 19	\$ 19	\$ —	\$ —
Cash collateral posted to counterparties (d)	3	3	—	—	9	9	—	—
Total assets	\$ 8	\$ 8	\$ —	\$ —	\$ 28	\$ 28	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 47	\$ —	\$ 47	\$ —
Total price risk management liabilities	\$ 31	\$ —	\$ 31	\$ —	\$ 47	\$ —	\$ 47	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 7	\$ 7	\$ —	\$ —	\$ 11	\$ 11	\$ —	\$ —
Total assets	\$ 7	\$ 7	\$ —	\$ —	\$ 11	\$ 11	\$ —	\$ —

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

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

(c) Included in "Other current assets" on the Balance Sheets.

(d) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

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

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default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Nonrecurring Fair Value Measurements (PPL)

See Note 8 for information regarding the estimated fair value of the Supply segment's net assets as of the June 1, 2015 spinoff date.

Financial Instruments Not Recorded at Fair Value (All Registrants)

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL	\$ 18,326	\$ 21,355	\$ 19,048	\$ 21,218
PPL Electric	2,831	3,148	2,828	3,088
LKE	5,065	5,439	5,088	5,384
LG&E	1,617	1,710	1,642	1,704
KU	2,327	2,514	2,326	2,467

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

17. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

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

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

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and

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- KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

Foreign currency risk

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

Commodity price risk

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

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

Volumetric risk

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

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

Equity securities price risk

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

Credit Risk

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

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

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

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

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Master Netting Arrangements

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

PPL had a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016 and no obligation to return cash collateral at December 31, 2015.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2016 and 2015.

PPL, LKE and LG&E posted \$3 million and \$9 million of cash collateral under master netting arrangements at December 31, 2016 and 2015.

KU did not post any cash collateral under master netting arrangements at December 31, 2016 and 2015.

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

Interest Rate Risk

(All Registrants)

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

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at December 31, 2016.

For 2016, 2015 and 2014, hedge ineffectiveness associated with interest rate derivatives was insignificant.

At December 31, 2016, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. In May 2016, \$460 million of WPD's U.S. dollar-denominated senior notes were repaid upon maturity and \$460 million notional value of cross-currency interest rate swap contracts matured. PPL recorded a \$46 million gain upon settlement of the cross-currency interest rate swap contracts, which largely offset a loss recorded on the revaluation of U.S. dollar-denominated senior notes.

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

PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2016 and an insignificant amount in 2014.

As a result of the June 1, 2015 spinoff of PPL Energy Supply, all PPL cash flow hedges associated with PPL Energy Supply were ineffective and discontinued and therefore, reclassified into earnings during the second quarter of 2015 and reflected in discontinued operations for 2015. See Note 8 for additional information. PPL had no other cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2015.

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At December 31, 2016, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is \$53 million. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. In December 2016, a swap with a notional amount of \$32 million was terminated. A cash settlement of \$9 million was paid on the terminated swap. The settlement is included in noncurrent regulatory assets on the Balance Sheet and in "Cash Flows from Operating Activities" on the Statement of Cash Flows. At December 31, 2016, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

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

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no such contracts outstanding at December 31, 2016.

At December 31, 2016 and 2015, PPL had \$21 million and \$19 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2016, the total exposure hedged by PPL was approximately £1.9 billion (approximately \$2.6 billion based on contracted rates). These contracts had termination dates ranging from January 2017 through December 2018.

In the third quarter of 2016, PPL settled foreign currency hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of \$310 million of cash entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2016 and 2015.

See Note 1 for additional information on accounting policies related to derivative instruments.

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(PPL)

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

	December 31, 2016				December 31, 2015			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ 24	\$ —	\$ 5
Cross-currency swaps (b)	32	—	—	—	35	—	—	—
Foreign currency contracts	—	—	31	21	10	—	94	1
Total current	32	—	31	25	45	24	94	6
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	27	—	—	—	42
Cross-currency swaps (b)	156	—	—	—	51	—	—	—
Foreign currency contracts	—	—	180	6	—	—	105	—
Total noncurrent	156	—	180	33	51	—	105	42
Total derivatives	\$ 188	\$ —	\$ 211	\$ 58	\$ 96	\$ 24	\$ 199	\$ 48

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

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2016				
Cash Flow Hedges:				
Interest rate swaps	\$ (21)	Interest Expense	\$ (7)	\$ —
Cross-currency swaps	130	Other Income (Expense) - net	116	—
		Interest Expense	3	—
Total	\$ 109		\$ 112	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 2			

2015				
Cash Flow Hedges:				
Interest rate swaps	\$ (34)	Interest Expense	\$ (11)	\$ —
		Discontinued operations	—	(77)
Cross-currency swaps	60	Other Income (Expense) - net	49	—
		Interest Expense	2	—
Commodity contracts		Discontinued operations	13	7
Total	\$ 26		\$ 53	\$ (70)
Net Investment Hedges:				
Foreign currency contracts	\$ 9			

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2014				
Cash Flow Hedges:				
Interest rate swaps	\$ (91)	Interest Expense	\$ (18)	\$ 2
Cross-currency swaps	58	Other Income (Expense) - net	57	—
		Interest Expense	4	—
Commodity contracts		Discontinued operations	42	—
Total	\$ (33)		\$ 85	\$ 2
Net Investment Hedges:				
Foreign currency contracts	\$ 23			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2016	2015	2014
Foreign currency contracts	Other Income (Expense) - net	\$ 384	\$ 122	\$ 121
Interest rate swaps	Interest Expense	(7)	(8)	(8)
Total	Total	\$ 377	\$ 114	\$ 113

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ (22)	\$ (66)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	\$ 7	\$ 1	\$ (12)

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ (22)	\$ (66)

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory asset - noncurrent	\$ —	\$ (11)	\$ (33)

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ (11)	\$ (33)

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(LKE and LG&E)

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

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 5
Total current	—	4	—	5
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	—	27	—	42
Total noncurrent	—	27	—	42
Total derivatives	\$ —	\$ 31	\$ —	\$ 47

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Interest Expense	\$ (7)	\$ (8)	\$ (8)

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	\$ 7	\$ 1	\$ (12)

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

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

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

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2016								
Treasury Derivatives								
PPL	\$ 399	\$ 27	19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

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	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2015								
Treasury Derivatives								
PPL	\$ 295	\$ 25	\$ —	\$ 270	\$ 72	\$ 25	\$ 9	\$ 38
LKE	—	—	—	—	47	—	9	38
LG&E	—	—	—	—	47	—	9	38

Credit Risk-Related Contingent Features

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

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

(PPL, LKE and LG&E)

At December 31, 2016, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 13	\$ 13	\$ 13
Aggregate fair value of collateral posted on these derivative instruments	3	3	3
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	10	10	10

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

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Total	
	2016	2015	2016	2015	2016	2015
Balance at beginning of period (a)	\$ 2,888	\$ 3,005	\$ 662	\$ 662	\$ 3,550	\$ 3,667
Effect of foreign currency exchange rates	(490)	(117)			(490)	(117)
Balance at end of period (a)	\$ 2,398	\$ 2,888	\$ 662	\$ 662	\$ 3,060	\$ 3,550

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(a) There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	\$ 405	\$ 325	\$ 407	\$ 300
Land and transmission rights	362	115	337	111
Emission allowances/RECs (b)	2	—	5	—
Licenses and other	6	2	10	5
Total subject to amortization	775	442	759	416
Not subject to amortization due to indefinite life:				
Land and transmission rights	19	—	33	—
Easements (c)	348	—	303	—
Total not subject to amortization due to indefinite life	367	—	336	—
Total	\$ 1,142	\$ 442	\$ 1,095	\$ 416

(a) Gross carrying amount includes the fair value at the acquisition date of the OVEC power purchase contract and coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. Offsetting regulatory liabilities were recorded related to these contracts, which are being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.

(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.

(c) The increase during 2016 was primarily from increases at WPD.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2016	2015	2014
Intangible assets with no regulatory offset	\$ 6	\$ 6	\$ 6
Intangible assets with regulatory offset	24	51	47
Total	\$ 30	\$ 57	\$ 53

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with no regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6
Intangible assets with regulatory offset	9	9	9	8	8
Total	\$ 15	\$ 15	\$ 15	\$ 14	\$ 14

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(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	\$ 341	\$ 112	\$ 316	\$ 108
Licenses and other	3	1	4	1
Total subject to amortization	344	113	320	109
Not subject to amortization due to indefinite life:				
Land and transmission rights	20	—	33	—
Total	\$ 364	\$ 113	\$ 353	\$ 109

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2016, 2015 and 2014 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 269	\$ 269	\$ 269	\$ 252
Land and transmission rights	21	3	21	2
Emission allowances (b)	—	—	3	—
OVEC power purchase agreement (c)	126	49	126	42
Total subject to amortization	\$ 416	\$ 321	\$ 419	\$ 296

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2016	2015	2014
Intangible assets with no regulatory offset	\$ 1	\$ —	\$ —
Intangible assets with regulatory offset	24	51	47
Total	\$ 25	\$ 51	\$ 47

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	\$ 9	\$ 9	\$ 9	\$ 8	\$ 8

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(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 124	\$ 124	\$ 124	\$ 116
Land and transmission rights	7	1	7	1
Emission allowances (b)	—	—	1	—
OVEC power purchase agreement (c)	87	34	87	29
Total subject to amortization	\$ 218	\$ 159	\$ 219	\$ 146

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2016	2015	2014
Intangible assets with regulatory offset	\$ 13	\$ 24	\$ 23

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 145	\$ 145	\$ 145	\$ 136
Land and transmission rights	14	2	14	1
Emission allowances (b)	—	—	2	—
OVEC power purchase agreement (c)	39	15	39	13
Total subject to amortization	\$ 198	\$ 162	\$ 200	\$ 150

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

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Amortization expense was as follows:

	2016	2015	2014
Intangible assets with no regulatory offset	\$ 1	\$ —	\$ —
Intangible assets with regulatory offset	11	27	24
Total	\$ 12	\$ 27	\$ 24

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	\$ 3	\$ 3	\$ 3	\$ 2	\$ 2

19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

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

	PPL		LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015	2016	2015
ARO at beginning of period	\$ 586	\$ 336	\$ 535	\$ 285	\$ 175	\$ 74	\$ 360	\$ 211
Accretion	24	19	22	18	7	5	15	13
Obligations incurred	—	5	—	5	—	3	—	2
Changes in estimated timing or cost	(84)	235	(95)	234	(19)	98	(76)	136
Effect of foreign currency exchange rates	(9)	(2)	—	—	—	—	—	—
Obligations settled	(29)	(7)	(29)	(7)	(18)	(5)	(11)	(2)
ARO at end of period	<u>\$ 488</u>	<u>\$ 586</u>	<u>\$ 433</u>	<u>\$ 535</u>	<u>\$ 145</u>	<u>\$ 175</u>	<u>\$ 288</u>	<u>\$ 360</u>

LKE recorded decreases of \$114 million (\$90 million at KU and \$24 million at LG&E) to the existing AROs during 2016 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

LKE recorded increases of \$228 million (\$139 million at KU and \$89 million at LG&E) to the existing AROs during 2015 as a result of an engineering study that was performed, in connection with the final CCR rule, providing clarity on projected CCR closure costs and revisions in the timing and amounts of future expected cash flows. Further increases to AROs or changes to current capital plans or to operating costs may be required as estimates of future cash flows are refined based on closure developments, groundwater monitoring results and regulatory or legal proceedings.

See Note 13 for information on the final CCR rule and Note 6 for information on the rate recovery applications with the KPSC.

20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

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

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans		Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	
PPL							
December 31, 2013	\$ (11)	\$ 172	\$ 94	\$ 1	\$ (6)	\$ (1,815)	\$ (1,565)
Amounts arising during the year	(275)	35	(10)	—	5	(509)	(754)
Reclassifications from AOCI	—	(6)	(64)	—	4	111	45
Net OCI during the year	(275)	29	(74)	—	9	(398)	(709)
December 31, 2014	\$ (286)	\$ 201	\$ 20	\$ 1	\$ 3	\$ (2,213)	\$ (2,274)
Amounts arising during the year	(234)	8	26	—	(9)	(366)	(575)
Reclassifications from AOCI	—	(2)	2	(1)	—	146	145
Net OCI during the year	(234)	6	28	(1)	(9)	(220)	(430)
Distribution of PPL Energy Supply (See Note 8)	—	(207)	(55)	\$ —	—	238	(24)
December 31, 2015	\$ (520)	\$ —	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the year	(1,107)	—	91	—	(3)	(61)	(1,080)
Reclassifications from AOCI	—	—	(91)	(1)	1	121	30
Net OCI during the year	(1,107)	—	—	(1)	(2)	60	(1,050)
December 31, 2016	\$ (1,627)	\$ —	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
LKE							
December 31, 2013				\$ 1	\$ (2)	\$ 14	\$ 13
Amounts arising during the year				—	(7)	(50)	(57)
Reclassifications from AOCI				(1)	1	(1)	(1)
Net OCI during the year				(1)	(6)	(51)	(58)
December 31, 2014				\$ —	\$ (8)	\$ (37)	\$ (45)
Amounts arising during the year				—	(3)	(4)	(7)
Reclassifications from AOCI				—	1	5	6
Net OCI during the year				—	(2)	1	(1)
December 31, 2015				\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the year				—	—	(27)	(27)
Reclassifications from AOCI				(1)	2	2	3
Net OCI during the year				(1)	2	(25)	(24)
December 31, 2016				\$ (1)	\$ (8)	\$ (61)	\$ (70)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2016 and 2015. LKE amounts are insignificant for the years ended December 31, 2016 and 2015. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the

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computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

Details about AOCI	PPL		Affected Line Item on the Statements of Income
	2016	2015	
Available-for-sale securities	\$ —	\$ 4	Other Income (Expense) - net
Total Pre-tax	—	4	
Income Taxes	—	(2)	
Total After-tax	—	2	
Qualifying derivatives			
Interest rate swaps	(7)	(11)	Interest Expense
	—	(77)	Discontinued operations
Cross-currency swaps	116	49	Other Income (Expense) - net
	3	2	Interest Expense
Commodity contracts	—	20	Discontinued operations
Total Pre-tax	112	(17)	
Income Taxes	(21)	15	
Total After-tax	91	(2)	
Equity Investees' AOCI			
Total Pre-tax	1	1	Other Income (Expense) - net
Income Taxes	—	—	
Total After-tax	1	1	
Defined benefit plans			
Prior service costs	(2)	—	
Net actuarial loss	(156)	(192)	
Total Pre-tax	(158)	(192)	
Income Taxes	36	46	
Total After-tax	(122)	(146)	
Total reclassifications during the year	\$ (30)	\$ (145)	

21. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

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

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. Public business entities may early adopt this guidance in annual reporting periods beginning after December 15, 2016. The Registrants will adopt this guidance effective January 1, 2018.

The Registrants have performed an assessment of a significant portion of their revenue under this new guidance to determine its effect on their current revenue recognition policies, and at this time they do not believe it will have a material impact. However, the Registrants will continue to monitor the development of industry specific application guidance which could have an impact on their assessments. The Registrants will determine the transition method they will apply after the industry specific application guidance is final and the implications of using either the full retrospective or modified retrospective transition methods are known.

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Accounting for Leases

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

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

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

The Registrants are currently assessing the impact of adopting this guidance.

Accounting for Financial Instrument Credit Losses

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

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

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

Simplifying the Test for Goodwill Impairment

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

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

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

**SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars, except share data)

	2016	2015	2014
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses			
Other operation and maintenance	2	9	16
Total Operating Expenses	2	9	16
Operating Loss	(2)	(9)	(16)
Other Income (Expense) - net			
Equity in earnings of subsidiaries	1,915	711	1,776
Other income (expense)	(1)	(15)	(18)
Total	1,914	696	1,758
Interest Expense	8	9	15
Interest Expense with Affiliates	10	10	10
Income Before Income Taxes	1,894	668	1,717
Income Taxes	(8)	(14)	(20)
Net Income	\$ 1,902	\$ 682	\$ 1,737
Comprehensive Income Attributable to PPL Shareowners	\$ 852	\$ 252	\$ 1,028
Earnings Per Share of Common Stock:			
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.80	\$ 1.01	\$ 2.64
Diluted	\$ 2.79	\$ 1.01	\$ 2.61
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	677,592	669,814	653,504
Diluted	680,446	672,586	665,973

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

**SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	\$ 1,563	\$ 993	\$ 1,633
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(308)	(491)	(1,045)
Return of capital from affiliated subsidiaries	—	112	247
Net cash provided by (used in) investing activities	(308)	(379)	(798)
Cash Flows from Financing Activities			
Issuance of equity, net of issuance costs	144	203	1,074
Net increase (decrease) in short-term debt with affiliates	(341)	215	(913)
Payment of common stock dividends	(1,030)	(1,004)	(967)
Contract adjustment payments on Equity Units	—	—	(22)
Other	(24)	(28)	(7)
Net cash provided by (used in) financing activities	(1,251)	(614)	(835)
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents at Beginning of Period	—	—	—
Cash and Cash Equivalents at End of Period	\$ 4	\$ —	\$ —
Supplemental Disclosures of Cash Flow Information:			
Cash Dividends Received from Subsidiaries	\$ 1,510	\$ 1,198	\$ 1,388

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

SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars, shares in thousands)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 4	\$ —
Accounts Receivable		
Other	7	10
Affiliates	10	20
Price risk management assets	63	139
Total Current Assets	84	169
Investments		
Affiliated companies at equity	10,160	10,479
Other Noncurrent Assets		
Deferred income taxes	70	100
Price risk management assets	284	133
Other noncurrent assets	1	1
Total Other Noncurrent Assets	355	234
Total Assets	\$ 10,599	\$ 10,882
Liabilities and Equity		
Current Liabilities		
Short-term debt with affiliates	\$ 44	\$ 385
Accounts payable with affiliates	30	16
Dividends	259	255
Price risk management liabilities	237	268
Other current liabilities	20	—
Total Current Liabilities	590	924
Deferred Credits and Other Noncurrent Liabilities	110	39
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	9,841	9,687
Earnings reinvested	3,829	2,953
Accumulated other comprehensive loss	(3,778)	(2,728)
Total Equity	9,899	9,919
Total Liabilities and Equity	\$ 10,599	\$ 10,882

(a) 1,560,000 shares authorized; 679,731 shares issued and outstanding at December 31, 2016; 780,000 shares authorized; 673,857 shares issued and outstanding at December 31, 2015.

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

**SCHEDULE I - PPL CORPORATION
NOTES TO CONDENSED UNCONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation

PPL Corporation is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. PPL Corporation uses the equity method to account for its investments in entities in which it has a controlling financial interest. PPL Corporation's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends, loans or advances or repayment of loans and advances from it. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of PPL Corporation.

PPL Corporation indirectly or directly owns all of the ownership interests of its significant subsidiaries. PPL Corporation relies on dividends or loans from its subsidiaries to fund PPL Corporation's dividends to its common shareowners and to meet its other cash requirements. See Note 7 to PPL Corporation's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to PPL in the form of distributions, loans or advances.

Balance Sheet Classification of Deferred Taxes

Effective October 1, 2015, PPL Corporation retrospectively adopted accounting guidance to simplify the presentation of deferred taxes which requires that deferred tax assets and deferred tax liabilities be classified as noncurrent on the balance sheet.

The adoption of this guidance required PPL Corporation to reclassify deferred tax assets and deferred tax liabilities from current to noncurrent on the balance sheet, and did not have a significant impact.

2. Commitments and Contingencies

See Note 13 to PPL Corporation's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees and Other Assurances

PPL Corporation's subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts that may become due under PPL Corporation's guarantees or other assurances or to make any funds available for such payment.

PPL Corporation fully and unconditionally guarantees the payment of principal, premium and interest on all of the debt securities of PPL Capital Funding. The estimated maximum potential amount of future payments that could be required under the guarantees at December 31, 2016 was \$8.6 billion. These guarantees will expire in 2073. The probability of expected payment under these guarantees is remote.

[Table of Contents](#)**SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,***(Millions of Dollars)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Other Income (Expense) - net			
Equity in Earnings of Subsidiaries	\$ 452	\$ 390	\$ 368
Interest Income with Affiliate	9	4	5
Total	<u>461</u>	<u>394</u>	<u>373</u>
Interest Expense	29	39	41
Interest Expense with Affiliate	<u>18</u>	<u>5</u>	<u>3</u>
Income Before Income Taxes	414	350	329
Income Tax Expense (Benefit)	<u>(15)</u>	<u>(14)</u>	<u>(15)</u>
Net Income Attributable to Member	\$ 429	\$ 364	\$ 344
Comprehensive Income Attributable to Member	\$ 405	\$ 363	\$ 286

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

**SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	\$ 285	\$ 246	\$ (183)
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(91)	(140)	(248)
Net decrease (increase) in notes receivable from affiliates	47	73	555
Net cash provided by (used in) investing activities	(44)	(67)	307
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	90	315	58
Net increase (decrease) in short-term debt	(75)	—	—
Retirement of long-term debt	—	(400)	—
Contribution from member	61	125	248
Distribution to member	(316)	(219)	(436)
Net cash provided by (used in) financing activities	(240)	(179)	(130)
Net Increase (Decrease) in Cash and Cash Equivalents	1	—	(6)
Cash and Cash Equivalents at Beginning of Period	—	—	6
Cash and Cash Equivalents at End of Period	\$ 1	\$ —	\$ —
Supplemental disclosures of cash flow information:			
Cash Dividends Received from Subsidiaries	\$ 376	\$ 272	\$ 260

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

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1	\$ —
Accounts receivable	—	1
Accounts receivable from affiliates	23	3
Income taxes receivable	31	—
Notes receivable from affiliates	1,007	1,054
Total Current Assets	<u>1,062</u>	<u>1,058</u>
Investments		
Affiliated companies at equity	<u>5,219</u>	<u>5,076</u>
Other Noncurrent Assets		
Deferred income taxes	<u>227</u>	<u>228</u>
Total Assets	<u>\$ 6,508</u>	<u>\$ 6,362</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 75
Notes payable to affiliates	179	69
Accounts payable to affiliates	450	469
Taxes	—	3
Other current liabilities	6	5
Total Current Liabilities	<u>635</u>	<u>621</u>
Long-term Debt		
Long-term debt	721	720
Notes payable to affiliates	480	500
Total Long-term Debt	<u>1,201</u>	<u>1,220</u>
Deferred Credits and Other Noncurrent Liabilities	<u>5</u>	<u>4</u>
Equity	<u>4,667</u>	<u>4,517</u>
Total Liabilities and Equity	<u>\$ 6,508</u>	<u>\$ 6,362</u>

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

**Schedule I - LG&E and KU Energy LLC
Notes to Condensed Unconsolidated Financial Statements**

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. LKE uses the equity method to account for its investments in entities in which it has a controlling financial interest. LKE's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's distributions to its member and to meet its other cash requirements. See Note 7 to LKE's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to LKE in the form of distributions, loans or advances.

2. Commitments and Contingencies

See Note 13 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time.

Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

3. Long-Term Debt

See Note 7 to LKE's consolidated financial statements for the terms of LKE's outstanding senior unsecured notes outstanding. Of the total outstanding, \$475 million matures in 2020 and \$250 million matures in 2021. These maturities are based on stated maturities. Also see Note 7 to LKE's consolidated financial statements for the terms of LKE's \$400 million note payable to PPL. This note matures in 2025. LKE's \$80 million note payable to LG&E and KU Services Company bears a variable interest rate, which resets each quarter based on LIBOR. The rate at December 31, 2016 was 1.381%. This note matures in 2019.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries

(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2016				
Operating revenues	\$ 2,011	\$ 1,785	\$ 1,889	\$ 1,832
Operating income	823	725	786	714
Net income	481	483	473	465
Net income available to PPL common shareowners: (c)				
Basic EPS	0.71	0.71	0.70	0.68
Diluted EPS	0.71	0.71	0.69	0.68
Dividends declared per share of common stock (d)	0.38	0.38	0.38	0.38
Price per common share:				
High	\$ 38.07	\$ 39.68	\$ 37.71	\$ 34.74
Low	32.80	36.27	33.63	32.19
2015				
Operating revenues	\$ 2,230	\$ 1,781	\$ 1,878	\$ 1,780
Operating income	890	638	686	617
Income from continuing operations after income taxes	552	250	396	405
Income (loss) from discontinued operations (net of income taxes) (d)(e)	95	(1,007)	(3)	(6)
Net income (b)	647	(757)	393	399
Income from continuing operations after income taxes available to PPL common shareowners: (c)				
Basic EPS	0.83	0.37	0.59	0.60
Diluted EPS	0.82	0.37	0.59	0.60
Net income (loss) available to PPL common shareowners: (c)				
Basic EPS	0.97	(1.13)	0.58	0.59
Diluted EPS	0.96	(1.13)	0.58	0.59
Dividends declared per share of common stock (d)	0.3725	0.3725	0.3775	0.3775
Price per common share:				
High	\$ 36.38	\$ 34.85	\$ 33.58	\$ 34.75
Low	31.40	29.45	29.41	32.60

- (a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The second quarter of 2015 includes a loss of \$879 million from the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.
- (c) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (d) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.
- (e) In the second quarter of 2015, PPL completed the spinoff of PPL Energy Supply substantially representing PPL's Supply segment. Accordingly, the previously reported operating results for PPL's Supply segment have been reclassified as discontinued operations. See Note 8 to the Financial Statements for additional information.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2016				
Operating revenues	\$ 585	\$ 495	\$ 539	\$ 537
Operating income	180	154	176	154
Net income	94	79	90	77
2015				
Operating revenues	\$ 630	\$ 476	\$ 519	\$ 499
Operating income	175	116	121	126
Net income	87	49	55	61

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2016, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officers and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

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

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

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2016. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report contained on page 90.

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

Management of PPL's non-accelerated filer companies, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process

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designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2016. This annual report does not include an attestation report of Deloitte & Touche LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

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

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Board Committee Membership" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2016, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2016 Notice of Annual Meeting and Proxy Statement.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/Standards-of-Integrity. A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/Guidelines and www.pplweb.com/board-committees.

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

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

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2016.

PPL Corporation

<u>Name</u>	<u>Age</u>	<u>Positions Held During the Past Five Years</u>	<u>Dates</u>
William H. Spence	59	Chairman, President and Chief Executive Officer	April 2012 - present
		President and Chief Executive Officer	November 2011 - March 2012
Joanne H. Raphael	57	Senior Vice President, General Counsel and Secretary	June 2015 - present
		Senior Vice President and Chief External Affairs Officer-PPL Services	October 2012 - May 2015
		Vice President-External Affairs-PPL Services	July 2000 - September 2012
Vincent Sorgi	45	Senior Vice President and Chief Financial Officer	June 2014 - present
		Vice President and Controller	March 2010 - June 2014
Gregory N. Dudkin (a)	59	President-PPL Electric	March 2012 - present
		Senior Vice President-Operations-PPL Electric	June 2009 - March 2012
Victor A. Staffieri (a) (b)	61	Chairman of the Board, Chief Executive Officer and President-LKE	May 2001 - present
Robert A. Symons (a)	63	Chief Executive-WPD	January 2000 - present
Joseph P. Bergstein, Jr.	46	Vice President-Investor Relations and Treasurer	January 2016 - present
		Vice President-Investor Relations and Financial Planning-PPL Services	February 2015 - December 2015
		Investor Relations Vice President-PPL Services	April 2012 - February 2015
		Investor Relations Director-PPL Services	June 2010 - April 2012
Stephen K. Breininger	43	Vice President and Controller	January 2015 - present
		Controller	June 2014 - January 2015
		Assistant Controller-Business Lines	March 2013 - June 2014
		Controller-Supply Accounting	April 2010 - March 2013

(a) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

(b) Effective January 3, 2017, Paul W. Thompson was elected President and Chief Operating Officer of LKE and was deemed to be an Executive Officer of PPL as of that date. Mr. Staffieri's title changed on that date to Chairman of the Board and Chief Executive Officer of LKE.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "The Board's Role in Risk Oversight," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2016, and which information is incorporated herein by reference.

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

Item 11 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
AND RELATED STOCKHOLDER MATTERS**

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2016, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2016, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	591,666 – ICP 1,368,385 – SIP <u>2,521,109</u> – ICPKE 4,481,160 – Total	\$ 38.02 – ICP \$ 26.22 – SIP \$ 28.36 – ICPKE \$ 28.98 – Combined	1,769,939 – DDCP 5,946,135 – SIP <u>1,531,659</u> – ICPKE 9,247,733 – Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the ICP, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards were awarded to executive officers of PPL and no awards remain for issuance under this plan; (b) the ICPKE, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the DDCP, under which stock units may be awarded to directors of PPL. See Note 10 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2016. In addition, as of December 31, 2016, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 15,000 shares of restricted stock under the ICP; 644,169 restricted stock units and 740,817 performance units under the SIP; 1,540,193 restricted stock units and 559,915 performance units under the ICPKE; and 385,167 stock units under the DDCP.
- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 10,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of stock units available for issuance was reduced to 2,000,000 stock units in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

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

Item 12 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2016, and is incorporated herein by reference.

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

Item 13 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2016 and 2015" in PPL's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2016, and which information is incorporated herein by reference.

PPL Electric Utilities Corporation

For the fiscal year ended 2016, Deloitte & Touche LLP (Deloitte) served as PPL Electric's independent auditor. For the fiscal year ended 2015, Ernst & Young LLP (EY) served as PPL Electric's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to PPL Electric, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by Deloitte and EY.

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Audit fees (a)	\$ 1,104	\$ 1,185
Audit-related fees (b)	—	11

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Includes fees for agreed upon procedures related to Annual EPA filings.

LG&E and KU Energy LLC

For the fiscal year ended 2016, Deloitte served as LKE's independent auditor. For the fiscal year ended 2015, EY served as LKE's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LKE, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by Deloitte and EY.

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Audit fees (a)	\$ 1,767	\$ 1,758

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

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Louisville Gas and Electric Company

For the fiscal year ended 2016, Deloitte served as LG&E's independent auditor. For the fiscal year ended 2015, EY served as LG&E's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LG&E, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by Deloitte and EY.

	2016	2015
	(in thousands)	
Audit fees (a)	\$ 814	\$ 718

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Kentucky Utilities Company

For the fiscal year ended 2016, Deloitte served as KU's independent auditor. For the fiscal year ended 2015, EY served as KU's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to KU, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by Deloitte and EY.

	2016	2015
	(in thousands)	
Audit fees (a)	\$ 936	\$ 717

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees. The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2016 and 2015 services provided by Deloitte and EY.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule I - PPL Corporation Condensed Unconsolidated Financial Statements.

Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meeting: The 2017 annual meeting of shareowners of PPL will be held on Wednesday, May 17, 2017, at The Kentucky Center for the Performing Arts, Bomhard Theatre, 501 W. Main Street, Louisville, Kentucky.

Proxy Statement Material: A proxy statement and notice of PPL's annual meeting will be provided to all shareowners who are holders of record as of February 28, 2017. The latest proxy statement can be accessed at www.pplweb.com/PPLCorpProxy.

PPL Annual Report: The report will be published in the beginning of April and will be provided to all shareowners who are holders of record as of February 28, 2017. The latest annual report can be accessed at www.pplweb.com/PPLCorpProxy.

Dividends: Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The 2017 record dates for dividends are expected to be March 10, June 9, September 8 and December 8.

PPL's Website (www.pplweb.com): Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can subscribe to receive automated email alerts for SEC filings, earnings releases, daily stock prices or other financial news.

Financial reports which are available at www.pplweb.com will be mailed without charge upon request by writing to:

PPL Treasury Dept.
Two North Ninth Street
Allentown, PA 18101
Via email: invserv@pplweb.com

or by calling:

Shareowner Services, toll-free at 1-800-345-3085; or
PPL Corporate Offices at 610-774-5151.

Online Account Access: Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Dividend Reinvestment and Direct Stock Purchase Plan (Plan): PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or electronic funds transfer. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Listed Securities:

New York Stock Exchange

PPL Corporation:
Common Stock (Code: PPL)

PPL Capital Funding, Inc.:
2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)
2013 Series B Junior Subordinated Notes due 2073 (Code: PPX)

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Fiscal Agents:

Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator

Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085
Outside U.S.: 651-453-2129
Website: shareowneronline.com

Indenture Trustee

The Bank of New York Mellon
Corporate Trust Administration
500 Ross Street
Pittsburgh, PA 15262

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation
(Registrant)

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Vincent Sorgi

Vincent Sorgi -
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Stephen K. Breininger

Stephen K. Breininger -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Rodney C. Adkins
John W. Conway
Steven G. Elliott
Venkata Rajamannar Madabhushi
Craig A. Rogerson

William H. Spence
Natica von Althann
Keith H. Williamson
Armando Zagalo de Lima

/s/ William H. Spence

William H. Spence, Attorney-in-fact

Date: February 17, 2017

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation
(Registrant)

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Gregory N. Dudkin

Gregory N. Dudkin -
President
(Principal Executive Officer)

/s/ Marlene C. Beers

Marlene C. Beers -
Controller
(Principal Financial Officer and Principal Accounting Officer)

Directors:

/s/ Gregory N. Dudkin

Gregory N. Dudkin

/s/ Vincent Sorgi

Vincent Sorgi

/s/ Joanne H. Raphael

Joanne H. Raphael

/s/ William H. Spence

William H. Spence

Date: February 17, 2017

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 17, 2017

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 17, 2017

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 17, 2017

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

- 1(a) - Securities Purchase and Registration Rights Agreement, dated March 5, 2014, among PPL Capital Funding, Inc., PPL Corporation, and the several purchasers named in Schedule B thereto (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 1(b) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporation (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- 1(c) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- 2(a) - Separation Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC., dated as of June 9, 2014 (Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 2(b) - Transaction Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 25, 2016 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 3(b) - Bylaws of PPL Corporation, effective as of December 18, 2015 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 21, 2015)
- 3(c) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- 3(d) - Bylaws of PPL Electric Utilities Corporation, effective as of October 27, 2015 (Exhibit 3(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2015)
- 3(e) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(f)-1 - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(f)-2 - Amendment to Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 25, 2013 (Exhibit 3(h)-2) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)
- 3(g)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(g)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))

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- 3(h) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(j) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- [*4\(a\)](#) - Amended and Restated Employee Stock Ownership Plan, dated December 1, 2016
- 4(b) - Trust Deed constituting £150 million 9.25% percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(c)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(c)-2 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(c)-3 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- 4(c)-4 - Supplemental Indenture No. 10, dated as of May 24, 2013, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-5 - Supplemental Indenture No. 11, dated as of May 24, 2013, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-6 - Supplemental Indenture No. 12, dated as of May 24, 2013, to said Indenture (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-7 - Supplemental Indenture No. 13, dated as of March 10, 2014, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-8 - Supplemental Indenture No. 14, dated as of March 10, 2014, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-9 - Supplemental Indenture No. 15, dated as of May 17, 2016, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2016)
- 4(d)-1 - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)

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- 4(d)-2 - First Supplemental Indenture constituting the creation of \$200 million 6.75% Notes due 2004, \$200 million 6.875% Notes due 2007, \$225 million 6.50% Notes due 2008, \$100 million 7.25% Notes due 2017 and \$300 million 7.375% Notes due 2028, dated as of March 16, 2001, to said Indenture (Exhibit 4(n)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-3 - Second Supplemental Indenture, dated as of January 30, 2003, to said Indenture (Exhibit 4(n)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-4 - Third Supplemental Indenture, dated as of October 31, 2014, to said Indenture (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- [*4\(d\)-5](#) - Fourth Supplemental Indenture, dated as of December 1, 2016
- 4(e)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(e)-2 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(e)-3 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- 4(e)-4 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(e)-5 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(e)-6 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(e)-7 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(e)-8 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(e)-9 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(e)-10 - Supplemental Indenture No. 15, dated as of July 1, 2013, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- 4(e)-11 - Supplemental Indenture No. 16, dated as of June 1, 2014, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 5, 2014)
- 4(e)-12 - Supplemental Indenture No. 17, dated as of October 1, 2015, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 1, 2015)
- 4(e)-13 - Supplemental Indenture No. 18, dated as of March 1, 2016, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)

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- 4(f)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(f)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(g)-1 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(g)-2 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- 4(g)-3 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- 4(h) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(i) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(j) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(k)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(k)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(k)-3 - Supplemental Indenture No. 4, dated as of March 15, 2013, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)
- 4(l) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(m) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)

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- 4(n)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(n)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated September 28, 2015)
- 4(n)-6 - Supplemental Indenture No. 5, dated as of August 1, 2016, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(o)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(o)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(o)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(o)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(o)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 28, 2015)
- 4(o)-6 - Supplemental Indenture No. 5, dated as of September 1, 2016, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)
- 4(p)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(p)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(p)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- 4(q)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(q)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-1 - 2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w) - 2016 Series A Carroll County Loan Agreement dated as of August 1, 2016 between Kentucky Utilities Company and the County of Carroll, Kentucky (Exhibit 4(a) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(x)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(x)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-1 - 2001 Series A Jefferson County Loan Agreement, dated July 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1 - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1 - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1 - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(ee)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff)-1 - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-1 - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-1 - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ll) - 2016 Series A Trimble County Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)201

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- 4(mm) - Trust Deed, dated November 26, 2010, between Central Networks East plc and Central Networks West plc, the Issuers, and Deutsche Trustee Company Limited relating to Central Networks East plc and Central Network West plc £3 billion Euro Medium Term Note Programme (Exhibit 4(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- 4(nn)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(nn)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(nn)-3 - Second Supplemental Indenture, dated as of October 30, 2014, to said Indenture (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- 4(oo)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No.1-11459) dated May 17, 2011)
- 4(oo)-2 - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- [*4\(oo\)-3](#) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 9, 2016
- 4(pp) - Trust Deed constituting £500 million 3.625% Senior Unsecured Notes due 2023, dated November 6, 2015, by and among Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 6, 2015)
- 10(a) - \$75 million Revolving Credit Agreement, dated as of October 30, 2013, among LG&E and KU Energy LLC, the Lenders from time to time party thereto, and PNC Bank, National Association, as the Administrative Agent and the Issuing Lender, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, Fifth Third Bank, as Syndication Agent, and Central Bank & Trust Company, as Documentation Agent (Exhibit 10(ii) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)
- 10(b) - \$300 million Revolving Credit Agreement, dated as of November 12, 2013, among PPL Capital Funding, Inc., as borrower, PPL Corporation, as Guarantor, the Lenders party thereof and PNC Bank National Association, as Administrative Agent, and Manufactures and Traders Trust as Syndication Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 10(c)-1 - \$150 million Revolving Credit Agreement, dated as of March 26, 2014, among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor and The Bank of Nova Scotia, as Administrative Agent, Issuing Lender and Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2014)
- 10(c)-2 - First Amendment to said Revolving Credit Agreement, dated as of March 17, 2015 (Exhibit 10(c)-2 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2015)

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- 10(c)-3 - Second Amendment to said Revolving Credit Agreement, dated as of March 17, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended June 30, 2016)
- 10(d) - Employee Matters Agreement, among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 10(e)-1 - \$300 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among PPL Electric Utilities Corporation, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(e) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2014)
- 10(e)-2 - Notice of Automatic Extension, dated as of September 29, 2014, to said Amended and Restated Credit Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2014)
- 10(e)-3 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [*10\(e\)-4](#) - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016
- 10(f)-1 - \$300 million Revolving Credit Agreement, dated as of July 28, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(f)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [*10\(f\)-3](#) - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016
- 10(g)-1 - \$400 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(g)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [*10\(g\)-3](#) - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017
- 10(h)-1 - \$500 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(h)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)

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- [*10\(h\)-3](#) - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017
- 10(i) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank, Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(j) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011(Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(k) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011(Exhibit 10(j) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(l) - \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party hereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (Exhibit 10.1 to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated October 2, 2014)
- 10(m) - £210 million Multicurrency Revolving Credit Facility Agreement, dated January 13 2016, among Western Power Distribution plc and HSBC Bank PLC and Mizuho Bank, Ltd. as Joint Coordinators and Bookrunners, Mizuho Bank, Ltd. as Facility Agent and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 19, 2016)
- 10(n) - £100,000,000 Term Loan Agreement, dated May 24, 2016, between Western Power Distribution (East Midlands) plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 10(o) - £50,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of October 11, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended September 30, 2016)
- []10(p)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- []10(p)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- []10(p)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- []10(p)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)

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- []10(p)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(p)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- []10(p)-7 - Amendment No. 6 to said Directors Deferred Compensation Plan, dated as of April 15, 2015 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)
- []10(q)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- []10(q)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- []10(q)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)
- []10(q)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(q)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(r)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- []10(r)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- []10(r)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(r)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(r)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(r)-6 - Amendment No. 5 to said Executive Deferred Compensation Plan, dated as of May 8, 2014 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- []10(r)-7 - Amendment No. 6 to said Executive Deferred Compensation Plan, dated as of December 16, 2015 (Exhibit []10(q)-7 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2015)

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- []10(s)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- []10(s)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- []10(s)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(s)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(s)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(s)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(t)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- []10(t)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(t)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(t)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(t)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- []10(t)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- []10(t)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- []10(t)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- []10(t)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- []10(u)-1 - Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)

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- []10(u)-2 - Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- []10(u)-3 - Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10(ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(u)-4 - Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(q) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(u)-5 - Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10(cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(u)-6 - Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- []10(v) - Short-term Incentive Plan (Annex B to Proxy Statement of PPL Corporation, dated April 12, 2016)
- []10(w) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(x) - Form of Retention Agreement entered into between PPL Corporation and Gregory N. Dudkin (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(y)-1 - Form of Severance Agreement entered into between PPL Corporation and William H. Spence (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(y)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- []10(z) - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Gregory N. Dudkin, Joanne H. Raphael, Vincent Sorgi and Victor A. Staffieri (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- []10(aa)-1 - PPL Corporation 2012 Stock Incentive Plan (Annex A to Proxy Statement of PPL Corporation, dated April 3, 2012)
- []10(aa)-2 - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan (Exhibit 10(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- []10(aa)-3 - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan (Exhibit 10(tt)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- []10(aa)-4 - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan (Exhibit 10(tt)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)

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- [\[\]10\(bb\)](#) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- [\[\]10\(cc\)](#) - Form of Western Power Distribution Phantom Stock Option Award Agreement for stock option awards under the Western Power Distribution Long-Term Incentive Plan (Exhibit []10(bbb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2014)
- [\[\]10\(dd\)](#) - Service Agreement (including Change in Control Agreement as Exhibit A), dated March 16, 2015, between Western Power Distribution (South West) plc and Robert A. Symons (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)
- [\[\]10\(ee\)](#) - Form of Retention Agreement, dated May 6, 2015, among PPL Corporation, PPL Services Corporation and Robert J. Grey (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 7, 2015)
- [\[\]10\(ff\)](#) - Form of Grant Letter dated May 29, 2015 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 1, 2015)
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- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
- [*21](#) - Subsidiaries of PPL Corporation
- [*23\(a\)](#) - Consent of Deloitte & Touche LLP - PPL Corporation
- [*23\(b\)](#) - Consent of Deloitte & Touche LLP - PPL Electric Utilities Corporation
- [*23\(c\)](#) - Consent of Deloitte & Touche LLP - LG&E and KU Energy LLC
- [*23\(d\)](#) - Consent of Deloitte & Touche LLP - Louisville Gas and Electric Company
- [*23\(e\)](#) - Consent of Deloitte & Touche LLP - Kentucky Utilities Company

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- [*23\(f\)](#) - Consent of Ernst & Young LLP - PPL Corporation
- [*23\(g\)](#) - Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
- [*23\(h\)](#) - Consent of Ernst & Young LLP - LG&E and KU Energy LLC
- [*23\(i\)](#) - Consent of Ernst & Young LLP - Louisville Gas and Electric Company
- [*23\(j\)](#) - Consent of Ernst & Young LLP - Kentucky Utilities Company
- [*24](#) - Power of Attorney
- [*31\(a\)](#) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(b\)](#) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(c\)](#) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(d\)](#) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(e\)](#) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(f\)](#) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(g\)](#) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(h\)](#) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(i\)](#) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(j\)](#) - Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*32\(a\)](#) - Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(b\)](#) - Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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*32(c)	- Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(d)	- Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(e)	- Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99(a)	- PPL Corporation and Subsidiaries Long-term Debt Schedule
101.INS	- XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	- XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	- XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	- XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

PPL

EMPLOYEE STOCK OWNERSHIP PLAN

EFFECTIVE JANUARY 1, 1975

**Amended and Restated
Effective December 1, 2016**

PPL
EMPLOYEE STOCK OWNERSHIP PLAN
EFFECTIVE January 1, 1975

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WHEREAS, PPL Services Corporation ("PPL") adopted the PPL Employee Stock Ownership Plan, most recently restated effective January 1, 2002, on behalf of various affiliated companies; and

WHEREAS, PPL desires to further amend and restate the PPL Employee Stock Ownership Plan,

NOW, THEREFORE, effective December 1, 2016, except as may be provided to the contrary herein, the PPL Employee Stock Ownership Plan is amended as hereinafter set forth:

ARTICLE I
PURPOSE

1.1 The purpose of this Plan is to provide Employees some ownership of stock of PPL Corporation, without requiring any reduction in pay or other employee benefits, or the surrender of any other rights on the part of Employees, and to invest primarily in the stock of PPL Corporation.

ARTICLE II

DEFINITIONS

2.1 **"Account"** shall mean the separate record maintained at the direction of the Employee Benefit Plan Board which represents the individual interest of a Participant in the Fund.

2.2 **"Affiliated Company" or "Affiliated Companies"** shall mean with respect to any Participating Company, (a) any corporation that is a member of a controlled group of corporations, as determined under section 414(b) of the Code, which includes such Participating Company; (b) any member of an affiliated service group, as determined under section 414(m) of the Code, of which such Participating Company is a member; (c) any trade or business (whether or not incorporated) that is under common control with such Participating Company, as determined under section 414(c) of the Code; and (d) any other organization or entity which is required to be aggregated with the Participating Company under section 414(o) of the Code and regulations issued thereunder. **"50% Affiliated Company"** means an Affiliated Company, but determined with "more than 50%" substituted for the phrase "at least 80%" in section 1563(a) of the Code, when applying sections 414(b) and (c) of the Code.

2.3 **"Board of Directors"** shall mean the Board of Directors of PPL or the Executive Committee of the Board of Directors with respect to any powers which have been assigned thereto by the Board of Directors. Effective upon the closing of the PPL Corporation corporate realignment pursuant to which PPL will separate its electric generation and energy marketing operations from its regulated electric transmission and distribution business, "Board of Directors" shall mean the Board of Directors of PPL Services Corporation.

2.4 **"Code"** shall mean the Internal Revenue Code of 1986, as amended from time to time or any predecessor or successor thereto.

2.5 **"Compensation"** shall have the meaning set forth in Schedule A, for Participants in the Participating Company listed therein, except as provided in the next sentence. Solely for purposes of the maximum allocation rules of Section 5.5 and the definition of "Highly Compensated Eligible Employee" in this Article, "Compensation" shall mean total wages as reported in the box titled "Wages, tips, other compensation" of Form W-2 (i.e. wages as defined in section 3401(a) of the Code and all other payments of compensation for which the Participating Company is required to furnish the employee a written statement under sections 6041(d) and 6051(a)(3) of the Code) plus salary reduction contributions and other amounts excluded from gross income under section 125 (relating to cafeteria plans), 132(f)(4) (relating to qualified transportation fringe benefit plans), 402(e)(3) (relating to section 401(k) cash or deferred plans), 402(h)(1)(B) (relating to simplified employee pensions) or 403(b) (relating to tax-deferred annuities) of the Code; and compensation deferred under an eligible deferred compensation plan within the meaning of section 457(b) of the Code. Solely for purposes of the maximum allocation rules under Section 5.5, Compensation shall exclude any amount paid after the Participant's severance from employment with a Participating Company, unless the amount is paid by the later of (i) 2-1/2 months after the Participant's severance from employment or (ii) the end of the year that includes the date of the Participant's severance from employment and such amount is (x) regular compensation for services, including overtime, commissions, bonuses or similar payments that would have been paid to the Participant if he had continued in

employment with the Participating Company, or (y) payment for unused accrued bona fide sick, vacation, or other leave, that the Participant would have been able to use the leave if employment with the Participating Company had continued or (z) nonqualified deferred compensation that would have been paid to the Participant at the same time if he had remained in employment with the Participating Company and that is includible in the Participant's gross income. Notwithstanding the foregoing, the preceding sentence shall not apply to payments to an individual who does not currently perform services for a Participating Company by reason of Qualified Military Service, to the extent those payments do not exceed the amount the individual would have received had he continued to perform services for a Participating Company rather than entering military service.

2.6 **"Credited Service"** shall mean that portion of an Employee's employment with PPL and all Affiliated Companies which is used to calculate the Employee's eligibility for participation and vesting status hereunder.

2.7 **"Deferred Savings Plan"** shall mean the PPL Deferred Savings Plan.

2.8 **"Dividend-based Contribution"** shall mean the contribution made by a Participating Company or PPL Corporation in accordance with Section 4.4.

2.9 **"Effective Date"** shall mean January 1, 2002, the effective date of this amended and restated Plan, except as provided to the contrary herein. The Plan was effective originally on January 1, 1975.

2.10 **"Eligible Employee"** shall mean an Employee who has satisfied the eligibility requirements of Section 3.1.

2.11 **"Employee"** shall mean each person who is classified by a Participating Company as a common law employee of such Participating Company, and who:

(a) is classified by the Participating Company as (1) a Managers Compensation Plan employee, (2) a Professional Associate – Part-Time, (3) an Administrative Associate – Part-Time, or (4) a Specific Professional; or

(b) is a member of the International Brotherhood of Electrical Workers and is in a classification eligible to participate in this Plan pursuant to a collective bargaining agreement between such union and a Participating Company.

An individual who is not classified by a Participating Company as a common law employee shall not be an Employee regardless of whether (1) the individual is considered an employee by reason of being a leased employee (whether or not within the meaning of section 414(n) or (o) of the Code), (2) the individual is classified by a Participating Company as an independent contractor, or (3) for employment tax or other purposes, the individual is subsequently determined to be a common law employee, or not to be a leased employee or independent contractor. For purposes of determining eligibility under the Plan, the classification to which an individual is assigned by a Participating Company shall be final and conclusive, regardless of whether a court, a governmental agency or any entity subsequently finds that such individual should have been assigned to a different classification.

2.12 **"Employee Benefit Plan Board"** shall mean the Board described in Article VIII.

2.13 **"Employee Savings Plan"** shall mean the PPL Employee Savings Plan (prior to February 14, 2000, the PP&L Employee Savings Plan).

2.14 **"ERISA"** shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

2.15 **"Fund"** shall mean the separate fund established for this Plan, administered under the Trust Agreement, out of which benefits payable under this Plan shall be paid.

2.16 **"Highly Compensated Eligible Employee"** shall mean an Eligible Employee who:

(a) is a five-percent owner, as defined in section 416(i)(1) of the Code, either for the current Plan Year or the immediately preceding Plan Year; or

(b) (1) received more than \$80,000 (as indexed) in Compensation in the immediately preceding Plan Year, from a Participating Company or an Affiliated Company; and

(2) was among the top 20% of Employees of the Participating Company and Affiliated Companies ranked by Compensation in the immediately preceding Plan Year (excluding Employees described in section 414(q)(5) of the Code to the extent (A) permitted under the Code and regulations thereunder and (B) elected by the Employee Benefit Plan Board, for purposes of identifying the number of Employees in the top 20%).

2.17 **"Hour of Service "** shall mean an hour for which:

(a) an employee is directly or indirectly paid or entitled to payment by PPL or an Affiliated Company for the performance of employment duties;

(b) back pay, irrespective of mitigation of damages, is either awarded or agreed to; or

(c) an employee is directly or indirectly paid or entitled to payment by PPL or an Affiliated Company on account of a period of time during which no duties are performed due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence.

There shall be excluded from the foregoing those periods during which payments are made or due under a plan maintained solely for the purpose of complying with applicable workers' for the compensation, unemployment compensation or disability insurance laws. No more than 501 Hours of Service shall be credited under Subsection (c) on account of any single continuous period during which no duties are performed except to the extent otherwise provided in this Plan. An Hour of Service shall not be credited where an employee is being reimbursed solely for medical or medically related expenses. An Hour of Service shall be credited in accordance with the rules set forth in U.S. Department of Labor Reg. §2530.200b-2(b) and (c).

Hours of Service shall also be credited for any individual who is considered a leased employee for purposes of this Plan under section 414(n) of the Code.

Notwithstanding the foregoing, Hours of Service shall be credited for an employee for whom no records of hours are maintained on the basis of 45 Hours of Service for each week of employment.

2.18 **“Leased Employee”** shall mean any person (other than an employee of a Participating Company or Affiliated Company) who pursuant to an agreement between a Participating Company or Affiliated Company and any other person (“leasing organization”) has performed services for a Participating **Company** or Affiliated Company (or for a Participating Company or Affiliated Company and related persons

determined in accordance with section 414(n)(6) of the Code) on a substantially full time basis for a period of at least one year, which services are performed under primary direction or control of a Participating Company or Affiliated Company.

A Leased Employee shall not be considered an employee of a Participating Company or Affiliated Company if (a) such individual is covered by a money purchase pension plan maintained by the leasing organization and providing (1) a nonintegrated employer contribution rate of at least 10 percent of compensation, as defined in section 415(c)(3) of the Code, but including amounts contributed pursuant to a salary reduction agreement which are excludable from the employee's gross income under section 125, section 132(f)(4), section 402(e)(3), section 402(h)(1)(B) or section 403(b) of the Code, (2) immediate participation, and (3) full and immediate vesting; and (b) leased employees do not constitute more than 20 percent of the recipient's nonhighly compensated work force.

2.19 **"Matching Contributions"** shall mean the contributions made by Participants in accordance with Section 4.2.

2.20 **"Market Value"** shall mean, with respect to the Stock, the closing prices of the Stock reported by the New York Stock Exchange for the third trading day immediately preceding the date on which the Stock is contributed to the Plan.

2.21 **"Officer"** shall mean those persons who are defined as officers in Rule 16a-1(f) promulgated under the Securities Exchange Act of 1934.

2.22 **"Participant"** shall mean an Employee entitled to participate in this Plan under Article III hereof or any former Employee for whom an Account is maintained under the Plan.

2.23 **"Participating Company"** shall mean PPL (prior to February 14, 2000, PP&L, Inc.), PPL EnergyPlus, LLC (prior to February 14, 2000, PP&L EnergyPlus Co., LLC) and each other Affiliated Company which is authorized by the Board to adopt this Plan by action of its board of directors, as Listed in Appendix A.

2.24 **"PAYSOP Contributions"** shall mean the contributions made by PPL in accordance with Section 4.3.

2.25 **"Plan"** shall mean the PPL Employee Stock Ownership Plan (prior to February 14, 2000, the PP&L Employee Stock Ownership Plan), an employee stock ownership plan within the meaning of section 4975(e)(7) of the Code, as set forth herein and as hereafter amended from time to time.

2.26 **"Plan Year"** shall mean the fiscal year of PPL, which shall commence each January 1 and end on the next following December 31.

2.27 **"PPL"** shall mean PPL Services Corporation and its successors. Prior to February 14, 2000, "PPL" shall mean PP&L, Inc.

2.28 **"PPL Corporation"** shall mean PPL Corporation and its successors. Prior to February 14, 2000, "PPL Corporation" shall mean PP&L Resources, Inc.

2.29 **"Qualified Military Service"** means any service (either voluntary or involuntary) by an individual in the Uniformed Services if such individual is entitled to reemployment rights with a Participating Company with respect to such service.

2.30 **"Retirement Plan"** shall mean the PPL Retirement Plan.

2.31 **"Returning Veteran"** means a former Employee who on or after December 12, 1994, returns from Qualified Military Service to employment by a Participating

Company within the period of time during which his reemployment rights are protected by law.

2.32 **"Spouse"** shall mean the person to whom a Participant is married on any date of reference.

2.33 **"Stock"** shall mean the common stock of PPL Corporation.

2.34 **"Total Disability"** shall mean a disability of a nature which renders a Participant eligible to participate in PPL's Long Term Disability Plan.

2.35 **"TRASOP Contributions"** shall mean the contributions made by PPL in accordance with Section 4.1.

2.36 **"Trust"** or **"Trust Agreement"** shall mean the Agreement and Declaration of Trust, if any, executed under this Plan.

2.37 **"Trustee"** shall mean the corporate Trustee or one or more individuals collectively appointed and acting under the Trust Agreement, if any.

2.38 **"Uniformed Services"** means the Armed Forces, the Army National Guard and Air National Guard (when engaged in active duty for training, inactive duty training, or full-time National Guard duty), the commissioned corps of the Public Health Service, and any other category of persons designated by the President of the United States in time of war or emergency.

2.39 **"Valuation Date"** shall mean the last day of each Plan Year and each interim date on which a valuation of the Fund is made.

ARTICLE III
ELIGIBILITY

3.1 Eligibility.

(a) All persons who were participants in the Plan immediately prior to January 1, 2015 and who are in the employ of a Participating Company on January 1, 2015 shall remain Participants hereunder as of such date. All Employees as of January 1, 2015 (but who are not eligible to participate under the preceding sentence) who have completed one year of Credited Service shall be Participants as of that date. No employee hired after January 1, 2015 who is not subject to a collective bargaining agreement shall be a Participant. Effective before July 31, 2006, other Employees shall become Participants on the first day of the calendar month next following the date on which an Employee completes one year of Credited Service, or if later, on which an individual becomes an Employee. Effective on and after July 31, 2006, but prior to January 1, 2015 for employees not subject to a collective bargaining agreement, other Employees shall become Participants on the first day of the calendar month next following the date on which an individual becomes an Employee. A "year of Credited Service," for the purposes of this Article, shall require completion of at least 1,000 Hours of Service during the 12 months from commencement of employment. An Employee who fails to complete 1,000 Hours of Service during his initial 12 months of employment shall complete a year of Credited Service as of the end of any Plan Year in which he completes 1,000 Hours of Service; provided, however, that the first Plan Year during which such Employee shall have the opportunity to complete such 1,000 Hours of Service shall include the anniversary of his commencement of employment.

(b) An Employee may elect in writing not to become a Participant by filing such election with the Employee Benefit Plan Board.

3.2 Participation. A Participant shall share in contributions under Article V for any Plan Year during which he (a) completes at least one Hour of Service and (b) receives Compensation. A Participant shall cease to be a Participant on the date on which his entire Account is distributed to him. Notwithstanding the foregoing, for Plan Year 1990, any Participant who is totally and permanently disabled shall share in contributions under Article V.

3.3 Reemployment after Break of Service. In the event a Participant ceases to be an Employee and subsequently again becomes an Employee, he shall not be readmitted as a Participant if he is not subject to a collective bargaining agreement.

3.4 Officers, Directors, and Shareholders. Officers, directors, and shareholders of a Participating Company who are Participants shall participate in the Plan on the same basis as other Participants.

3.5 Rights Affected. Except as expressly provided to the contrary in the Plan, any former Employee who has retired or whose employment has terminated before the Effective Date shall receive no additional rights as a result of this amended and restated Plan, but shall have his rights and benefits determined solely under the Plan as it existed prior to the Effective Date. However, any former Employee who has terminated employment and who is reemployed as an Employee after the Effective Date shall have the rights and benefits provided hereunder.

3.6 **Data.** Each Participant shall furnish to the Employee Benefit Plan Board such data as may be considered necessary by the Employee Benefit Plan Board for the determination of his rights and benefits under the Plan.

ARTICLE IV
CONTRIBUTIONS TO THE FUND

4.1 **TRASOP Contributions.** Prior to January 1, 1983, PPL contributed certain TRASOP contributions subject to section 409 of the Code. Effective January 1, 1983, no further TRASOP contributions shall be made.

4.2 **Matching Contributions.** Prior to January 1, 1983, Participants contributed certain Matching Contributions to be matched by PPL TRASOP contributions. Effective January 1, 1983, no further Matching Contributions shall be made.

4.3 **PAYSOP Contributions.** Prior to January 1, 1987, PPL contributed certain PAYSOP contributions subject to section 409 of the Code. Effective January 1, 1987, no further PAYSOP contributions shall be made.

4.4 **Dividend-based Contribution.** Commencing with the 1990 Plan Year, a Participating Company or PPL Corporation may contribute to the Plan an amount determined at the sole discretion of PPL or PPL Corporation relating to the reduction in taxes arising out of the payment of dividends to participants and the contribution thereof to the Plan. The Dividend-based Contribution is in addition to contributions made pursuant to Sections 4.1, 4.2 and 4.3. All contributions by PPL, PPL Corporation or a Participating Company are expressly conditioned upon their deductibility for federal income tax purposes.

4.5 **Investment in Stock.** All TRASOP, PAYSOP, Dividend-based, and Matching Contributions may be in cash or in Stock; provided, however, that if a Contribution is in cash, the Trustee shall use such Contribution to purchase Stock from PPL Corporation or others, effective July 31, 2006, with the exception of such funds

necessary to implement a Participant's direction for investment in investment options for diversification of investments pursuant to Code Section 401(a)(28)(B) and Section 7.9(b) of the Plan. If a Contribution is in Stock, the number of shares contributed will be determined by the Market Value of the Stock.

ARTICLE V **ALLOCATION**

5.1 **Accounts.** A separate Account shall be created for each Participant. Separate subaccounts shall also be maintained with respect to the Stock acquired with (a) TRASOP and PAYSOP Contributions, (b) Matching Contributions and (c) Dividend-based Contributions. Additional subaccounts may be established at the Employee Benefit Plan Board's discretion.

5.2 **Allocation of Contributions.** Contributions made for any Plan Year shall be allocated among the Participants entitled to share in the allocation of contributions pursuant to Section 3.2 in accordance with the following rules.

(a) Subject to Section 5.2(b), Stock acquired with the Dividend-based Contribution made with respect to a Plan Year shall be allocated, as of the close of such Plan Year, as follows:

- (1) 75% of the Dividend-based Contribution shall be allocated to the Account of each Participant to whom or on whose behalf dividends were paid at any time during the portion of such Plan Year in which the Participant was an Employee. The amount of such Stock allocated to each Participant's Account shall bear the same proportion to the total amount of such Stock allocated with respect to such Plan Year as the amount of dividends paid to such Participant during the portion of the Plan Year in which he was an Employee bears to the total amount of dividends paid to all Participants during the portion of such Plan Year in which they were Employees; and

- (2) 25% of the Dividend-based Contribution shall be allocated to the Account of each Participant who was a Participant at any time during such Plan Year. The amount of such Stock allocated to each Participant's Account shall bear the same proportion to the total amount of such Stock allocated with respect to such Plan Year as the amount of the Compensation paid to such Participant bears to the total Compensation paid to all Participants during such Plan Year.

(b) In the event the allocation under Section 5.2(a)(1) fails the general test as set forth in Treas. Reg. section 1.401(a)(4)-2(c), the percentage of such contribution to be allocated under Section 5.2(a)(1) shall be decreased and the percentage of such contribution to be allocated under Section 5.2(a)(2) shall be correspondingly increased until the allocation under Section 5.2(a)(1) passes such general test. For purposes of the preceding sentence, the general test shall be performed without imputing disparity and without cross-testing, in accordance with any method permitted under Treas. Reg. 1.401(a)(4)-2(c) and related regulations, provided the general test is passed using such method; if the general test is failed using all methods permitted under Treas. Reg. 1.401(a)(4)-2(c) and related regulations, the general test shall be performed in accordance with the method that causes the smallest required adjustment under the preceding sentence in the relative percentages under Section 5.2(a)(1) and (2).

5.3 Allocation of Earnings.

(a) Any cash dividends paid prior to July 1, 2003 with respect to Stock that is allocated to a Participant's Account as of the record date of such dividend shall be paid

no later than 90 days after the close of the Plan Year to the Participant in cash either by the Trustee or directly by PPL, a Participating Company or PPL Corporation.

(b) Any cash dividends paid on or after July 1, 2003 with respect to Stock that is allocated to a Participant's Account as of the record date of such dividend shall be, as elected by the Participant in the manner and at the time prescribed by the Employee Benefit Plan Board, (1) distributed in cash to the Participant as soon as administratively practicable following the date such dividend is paid by PPL Corporation (but in no event later than 90 days after the close of the Plan Year in which such dividend is paid by PPL Corporation) or (2) credited to the Participant's Account and invested in additional Stock. Dividends that are invested in Stock in the Plan pursuant to an election under section 404(k)(A)(iii) of the Code shall be treated as earnings under the Plan. Pursuant to rules established by the Employee Benefit Plan Board, a Participant's failure to elect either a cash distribution or investment in Stock shall be deemed an election of cash distribution.

(c) Effective July 1, 2003, any non-cash distributions paid with respect to Stock allocated to a Participant's Account shall be credited to the Participant's Account and invested in additional Stock and treated as earnings under the Plan.

The initial deposit of non-cash dividends to the Trust shall commence a blackout of any and all distribution activity under Article VII with respect to such non-cash dividends until such time as the Employee Benefit Plan Board specifies the blackout shall end. The allocable share of non-cash dividends for each Participant's account shall be established in a temporary sub-account which shall have no distributions permitted. The sub-accounts shall be liquidated and reinvested in stock in an orderly manner, and such sub-accounts, when allocated their allocable share of the

stock purchased by reinvestment of non-cash dividends, shall be merged into the Participant's accounts when the blackout ends. Article VII distributions for the Participant's full account, including the additional stock from the merged sub-account, shall be permitted as of the date the blackout ends. During the blackout, only that portion of the Participant's account which is not in the temporary sub-account may have distributions described in Article VII.

5.4 Special Allocation Rule. No Participant may receive an allocation under the Dividend-based Contribution provided for in Section 5.2(a) above which equals or exceeds 5% of such Participant's Compensation for the Plan Year for which such allocation is being made.

5.5 Maximum Allocation. Notwithstanding anything in this Article to the contrary, in no event shall contributions under the Plan violate the limitations set forth in section 415 of the Code, which are hereby incorporated into the Plan. Effective for limitation years beginning on or after July 1, 2007, should there be any excess annual additions to Participant's account in excess of the limitations of section 415 of the Code, such excess annual additions shall be corrected to the extent permitted by rules set forth in Internal Revenue Service revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin.

5.6 Supplemental 2012 Allocation. There shall be a supplemental contribution for the 2012 Plan Year that shall be allocated according to the following formula, notwithstanding any other provision in this Plan:

(a) For all Participants that are not covered by a collective bargaining agreement, are not a Highly Compensated Eligible Employee, and have compensation

less than \$70,000, there shall be an allocation of Stock with a value of \$800.

(b) For all Participants that are not covered by a collective bargaining agreement, are not a Highly Compensated Eligible Employee, and have compensation of \$70,000 or more, there shall be an allocation of Stock with a value of \$250.

(c) This supplement allocation shall be in addition to any other allocation for the 2012 Plan Year under this Article V.

ARTICLE VI
PARTICIPANTS' ACCOUNTS

6.1 **Accounts.** All contributions and earnings thereon may be invested in one commingled Fund for the benefit of all Participants. However, in order that the interest of each Participant may be accurately determined and computed, a separate Account shall be maintained for each Participant which shall represent his interest in the Fund.

6.2 **Valuation.** The value of each investment medium in the Fund shall be computed by the Trustee as of the close of business on each Valuation Date on the basis of the fair market value of all assets of the Fund.

6.3 **Accounting for Allocations.** The Employee Benefit Plan Board shall provide for the establishment of accounting procedures for the purpose of making the allocations, valuations and adjustments to Participants' Accounts provided for in this Article. From time to time, such procedures may be modified for the purpose of achieving equitable and nondiscriminatory allocations among the Accounts of Participants in accordance with the general concepts of the Plan and the provisions of this Article.

ARTICLE VII

DISTRIBUTION

7.1 **General.** The interest of each Participant in the Fund shall be distributed in the manner, in the amount and at the time provided in this Article, except that in the event of termination of the Plan the provisions of Article X shall govern. Prior to July 1, 2003, each Participant shall have a nonforfeitable right to all Stock allocated to his Account, except as set forth in Sections 4.1(f), 4.7(c) and 5.5. Effective July 1, 2003, except as set forth in Section 5.5, each Participant shall have a nonforfeitable right to his Account including Stock or other amounts that are attributable to cash dividends paid on Stock to which the Participant has made or is deemed to have made an investment election pursuant to section 404(k)(A)(iii) of the Code. The provisions of this Article shall be construed in accordance with section 401(a)(9) of the Code and regulations thereunder.

7.2 **Death.** If a Participant dies either while in the employment of a Participating Company or after termination of employment but prior to the commencement of benefit payments, the full amount of his interest in the Fund shall be paid to the Participant's beneficiary in a single sum.

7.3 **Beneficiary Designation.**

(a) Death benefits under the Plan shall be paid to the surviving Spouse of a Participant, including the Spouse of a Participant who has retired or whose employment has terminated before the Effective Date, (1) unless (A) such Spouse consents in writing not to receive such benefit and consents to the specific beneficiary designated by the Participant, (B) such consent acknowledges its own effect, and (C) such consent is witnessed by a notary public; or (2) unless the Participant establishes to the satisfaction

of a Plan representative either that he has no Spouse, that his Spouse cannot be located, or that his Spouse's consent is not required under such other circumstances as are prescribed under governmental regulations.

(b) Except as provided in this Section, each Participant shall have the unrestricted right at any time to designate the beneficiary or beneficiaries who shall receive, upon or after his death, his interest in the Fund by executing and filing with the Employee Benefit Plan Board a written instrument in such form as may be prescribed by the Employee Benefit Plan Board for that purpose. Except as provided in this Section, the Participant shall have the unrestricted right to revoke and to change, at any time and from time to time, any beneficiaries previously designated by him by executing and filing with the Employee Benefit Plan Board a written instrument in such form as may be prescribed by the Employee Benefit Plan Board for that purpose. No designation, revocation or change of beneficiaries shall be valid and effective unless and until filed with the Employee Benefit Plan Board.

If no designation is made, or if the beneficiaries named in such designation predecease the Participant, or if the beneficiary cannot be located by the Employee Benefit Plan Board, the interest of the deceased Participant shall be paid to the surviving spouse or if none, to the Participant's estate.

The amount payable upon the death of a Participant shall be paid in Stock or cash as elected by the recipients.

7.4 Disability.

(a) If a Participant suffers a Total Disability prior to his termination of employment with PPL and all Affiliated Companies and is on inactive status on account of

such Total Disability, the full amount of his interest in the Fund shall be paid to him or applied for his benefit upon Participant's consent in writing to such payment or application following the determination of his Total Disability in accordance with the provisions of this Article VII.

(b) Total Disability shall be determined by the Employee Benefit Plan Board which may consult with a medical examiner selected by it. The medical examiner shall have the right to make such physical examinations and other investigations as may be reasonably required to determine Total Disability.

7.5 Termination of Employment. Upon a Participant's retirement or other termination of employment with PPL and all Affiliated Companies, he shall be entitled to receive his interest in the Fund. Subject to Subsection 7.7(c), (a) if the value of his interest in the Fund exceeds \$5,000 (\$1,000 effective March 28, 2005), his interest shall not be paid to him or applied for his benefit until (1) he consents in writing to such payment or application, or (2) he attains his 65th birthday or (3) he dies; whichever occurs first; (b) otherwise, his interest shall be paid to him or applied for his benefit in a single sum within 60 days after such termination takes place.

7.6 Valuation for Distribution. For the purposes of paying the amounts to be distributed to a Participant or his beneficiaries under the provisions of this Article, the value of the Fund and the amount of the Participant's interest shall be determined in accordance with the provisions of Article VI as of the Valuation Date coincident with or next following the event which gives rise to a payment under this Article. There shall be added to such amount the additional contributions, if any, which are to be allocated to the Participant's Account pursuant to Article IV.

7.7 Timing of Distribution.

(a) A Participant entitled under this Article to receive benefits shall commence to receive benefits as soon as administratively practicable, but in no event shall any Participant receive benefits later than the earlier of the dates determined under (1), (2) or (3) below:

(1) the later of

(A) the 60th day after the close of the Plan Year in which the Participant attains his Normal Retirement Date or

(B) the 60th day after the close of the Plan Year in which the Participant's employment with all Participating Companies and all Affiliated Companies terminates;

(2) the later of

(A) the April 1st that follows the end of the calendar year in which the Participant attains age 70½;
or

(B) (Effective only for Participants who attain age 70½ on or after January 1, 2002.) the April 1st that follows the end of the calendar year in which the Participant's employment terminates; provided, however, that this Paragraph (a)(2)(B) shall not apply for a Participant who is a five-percent (5%) owner (as defined in section 416 of the Code) of a Participating Company at any time during the five-Plan Year period ending in the calendar year in which he attains Age 70½ or thereafter; or

(3) in the event of the Participant's death, December 31 of the calendar year following the year of the Participant's death.

(b) If a Participant attains age 70½ after December 31, 1995 but before January 1, 2002, and is not a 5-percent owner (within the meaning of section 416 of the Code) of a Participating Company at any time during the five-Plan Year period ending in the calendar year in which he attained age 70½ or thereafter, such Participant may elect to receive benefits on either (1) April 1 of the calendar year following the calendar year in which he attains age 70½, or (2) April 1 of the calendar year following the calendar year in which he terminates employment with all Participating Companies and all Affiliated Companies. Such election must be made, in a form provided by the Administrative Committee, not later than April 1 of the calendar year following the calendar year in which the Participant attains age 70½. If the Participant fails to make a timely election, such Participant shall receive benefits not later than April 1 of the calendar year following the calendar year in which he attained age 70½.

(c) A Participant who terminates employment with a Participating Company on or after age 55, and whose Account exceeds \$5,000 (\$1,000 effective Mach 28, 2005), shall be entitled to defer payment of his benefits until a date not later than that specified in Section 7.7(a)(2).

(d) The Employee Benefit Plan Board shall supply to each Participant who is entitled to distribution before his death or attainment of age 65 and the value of whose Account exceeds \$5,000 (\$1,000 effective Mach 28, 2005), written information relating to his right to defer distribution under Section 7.4, 7.5 or 7.7(c). Such notice shall be furnished not less than 30 days nor more than 90 days prior to the Participant's benefit commencement date, except that such notice may be furnished less than 30 days prior to the Participant's benefit commencement date if (1) the Employee Benefit Plan Board

informs the Participant that the Participant has the right to a period of at least 30 days after receiving such notice to consider the decision whether to elect a distribution, and the mode in which he desires such distribution to be made, and (2) the Participant, after receiving such notice, affirmatively elects a distribution.

7.8 Mode of Distribution. The sole form of benefit under Sections 7.2, 7.4 and 7.5 shall be a single sum payment. Any additional Stock which is subsequently allocated to the Participant's Account shall be distributed within 60 days following the date on which such allocation is actually made. At the election of the Participant, all distributions will be either in cash or in full shares of Stock and cash in lieu of fractional shares based on the price at which the Trustee sells such Stock or the fair market value thereof, if the Stock is not sold.

7.9 Withdrawals.

(a) Prior to July 31, 2006, a Participant could, by filing a written election with the Employee Benefit Plan Board, withdraw from his Account all Stock which had been allocated with respect to a Plan Year ending at least 84 months prior to the end of the Plan Year in which such election was made. The number of shares eligible for withdrawal during a Plan Year were determined on or before October 1 of the preceding Plan Year. Elections had to be received by the first day of March, June, September or December of the year in which the withdrawal was made. Payments of withdrawals were made within 60 days following the end of the quarter for which the election was made. As of July 31, 2006, a Participant may, by filing a written election with the Trustee, withdraw from his Account all Stock which has been allocated to the Participant's Account for at least 36 months prior to the date such election is made.

(b) (1) Any Participant who has completed at least ten years of participation in the Plan and attained age 55 may elect within 90 days after the close of each Plan Year in the election period (as defined in Subsection (b)(2) below) to withdraw 25% of his Account attributable to Stock acquired by or contributed to the Plan on or after December 31, 1986 to the extent such portion of his Account exceeds the sum of (A) the amount to which a prior election under this Subsection applies and (B) any amount withdrawn under Subsection (a) pursuant to an election made within 90 days after the close of any Plan Year in the election period. In the case of a Participant's final election, "50%" shall be substituted for "25%" in the preceding sentence to determine the amount the Participant may withdraw or, effective July 31, 2006, re-invest. The determination of the date on which Stock is acquired by or contributed to the Plan shall be made in accordance with section 401(a)(28) of the Code and regulations thereunder.

(2) The election period for purposes of this Subsection is the six Plan Year period that begins with the Plan Year in which occurs the later of (A) the Participant's attainment of age 55 or (B) the first Plan Year in which the Participant has completed ten years of participation, except that the election period shall not begin before December 31, 1986.

(3) Payments of withdrawals under this Subsection 7.9(b) will be made within 90 days following the end of the 90-day period during which the withdrawal election is made.

(4) Effective July 31, 2006, if the Participant elects a re-investment, the portion of the Account specified in Section 7.9(b)(1) will be invested by the Trustee on behalf of the Participant in such investment choices as the Participant may select among

the investments utilized by the Deferred Savings Plan and Employee Savings Plan. The transfer of investments, fees and charges, and limitations on investment withdrawals and deposits shall be the same as that imposed on such investments by the Trustee of the Deferred Savings Plan and Employee Savings Plan. The Participant shall have the right to withdraw any and all funds so invested, subject to investment administrative timing rules as may be imposed by the Trustee.

(c) Notwithstanding the provisions of Section 7.9(a) and (b) above, Officers may not withdraw or, effective July 31, 2006, re-invest, any Stock which has been in the Plan less than six months. Any election by an Officer to make a withdrawal or, effective July 31, 2006, re-invest, pursuant to this Section 7.9 must be made not less than six months prior to the date of the withdrawal and such election shall be irrevocable.

7.10 Optional Direct Transfer of Eligible Rollover Distributions.

(a) Except to the extent otherwise provided by section 401(a)(31) of the Code and regulations thereunder, a Participant, or an alternate payee under a Qualified Domestic Relations Order who is the spouse or former spouse of a Participant, entitled to receive a withdrawal or distribution from the Plan may elect to have the Trustee transfer all or a portion of the amount to be distributed directly to:

- (1) an individual retirement account described in section 408(a) of the Code,
- (2) an individual retirement annuity described in section 408(b) of the Code (other than an endowment contract),

(3) a qualified defined contribution retirement plan described in section 401(a) of the Code, the terms of which permit the acceptance of rollover contributions from this Plan,

(4) an annuity plan described in section 403(a) of the Code, the terms of which permit the acceptance of rollover contributions from this Plan,

(5) an annuity contract described in section 403(b) of the Code, or

(6) an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan.

(7) Effective with respect to distributions made after December 31, 2007, a Roth IRA described in Code section 408A of the Code.

A death beneficiary entitled to receive a distribution from the Plan shall have the right to transfer all or a portion of the amount to be distributed directly to a section 408(a) or 408(b) plan described in Subsections (a)(1) and (a)(2) above, provided that a non-spouse beneficiary shall establish such a plan in compliance with Code Section 402(c)(11) concerning an inherited individual retirement plan of a non-spouse beneficiary.

(b) the Participant or beneficiary must specify the name of the plan to which the amount is to be transferred, on a form and in a manner prescribed by the Employee Benefit Plan Board.

(c) Subsection (a) shall not apply to the following distributions:

(1) any distribution of Matching Contributions,

(2) any distribution which is one of a series of substantially equal installments over either (1) a period of ten (10) years or more, or (2) a period equal to the life or life expectancy of the Participant or the joint lives or life expectancy of the Participant and his beneficiary,

(3) that portion of any distribution after the Participant's Required Beginning Date that is required to be distributed to the Participant by the minimum distribution rules of section 401(a)(9) of the Code, or

(4) such other distributions as may be exempted by applicable statute or regulation from the requirements of section 401(a)(31) of the Code.

(d) Notwithstanding the foregoing, a Participant may take a rollover distribution of Matching Contributions, provided; however that such a rollover can only be made to an individual retirement account or annuity contract described in section 408(a) or 408(b) of the Code, or, via a direct trustee-to-trustee transfer, to a qualified plan described in section 401(a) of the Code or an annuity contract described in section 403(b) of the Code that separately accounts for after-tax rollover contributions.

ARTICLE VIII
ADMINISTRATION

8.1 Administration by Employee Benefit Plan Board.

(a) The Plan shall be administered by an Employee Benefit Plan Board, consisting of not fewer than three persons. Members of the Employee Benefit Plan Board shall be appointed from time to time by the Board of Directors of PPL Corporation and shall serve at the pleasure of the Board of Directors of PPL Corporation. Vacancies shall be filled in the same manner as appointments. Any member of the Employee Benefit Plan Board may resign by delivering a written resignation to the Board of Directors or to the Secretary of the Employee Benefit Plan Board effective upon delivery or at any other future date specified therein.

(b) The Employee Benefit Plan Board shall elect a chairman from its members and shall appoint a secretary who may be, but need not be, a member of the Employee Benefit Plan Board. The Employee Benefit Plan Board shall not receive any compensation for its services.

(c) The Employee Benefit Plan Board may act at a meeting or in writing without a meeting. A majority of the members of the Employee Benefit Plan Board at the time in office shall constitute a quorum for the transaction of business at all meetings and a majority of those present at any meeting shall be required for action. All decisions by the Employee Benefit Plan Board arrived at without a meeting shall be made by the vote or assent of a majority of its members. No member of the Employee Benefit Plan Board may act, vote or otherwise influence a decision of the Employee Benefit Plan Board specifically relating to the Employee Benefit Plan Board member's own participation under the Plan.

(d) The Employee Benefit Plan Board may adopt such rules and regulations as it deems desirable for the conduct of its affairs. All rules and decisions of the Employee Benefit Plan Board shall be uniformly and consistently applied. The Employee Benefit Plan Board shall have the final right of interpretation, construction and determination under the Plan and decisions of the Employee Benefit Plan Board are final and conclusive for all purposes.

8.2 Duties and Powers of Employee Benefit Plan Board and Administrative Committee.

(a) In addition to the duties and powers described elsewhere hereunder, the Employee Benefit Plan Board shall have all such powers as may be necessary to discharge its duties hereunder including but not limited to the following specific duties and powers:

(1) to retain such consultants, accountants, agents, clerical assistants and attorneys as may be deemed necessary or desirable to render statements, reports and advice with respect to the Plan and to assist the Employee Benefit Plan Board in complying with all applicable rules and regulations affecting the Plan. Any consultants, accountants, or attorneys may be the same as those retained by PPL;

(2) to make such amendments as provided for in Article X;

(3) to enact uniform and nondiscriminatory rules and regulations to carry out the provisions of the Plan;

(4) to compute the amount of any distribution payable to a Participant or other amounts payable under the Plan and authorize disbursement from the Fund;

(5) to interpret the provisions of the Plan;

(6) to determine whether any domestic relations order received by the Plan is a qualified domestic relations order as provided in section 414(p) of the Code;

(7) to evaluate administrative procedures;

(8) to delegate such duties and powers as the Employee Benefit Plan Board shall determine from time to time to any person or persons or to an administrative committee. To the extent of any such delegation, the delegate shall have the duties, powers, authority, and discretion of the Employee Benefit Plan Board; and

(9) to establish a claims procedure under which claims will be reviewed by the Manager-Employee Benefits of PPL (effective upon the closing of the PPL Corporation corporate realignment pursuant to which PPL will separate its electric generation and energy marketing operations from its regulated electric transmission and distribution business, by the Manager-Employee Benefits of PPL Services Corporation), or such other individual as may be designated by the Vice President-Human Resources of PPL (effective upon the closing of the PPL Corporation corporate realignment pursuant to which PPL will separate its electric generation and energy marketing operations from its regulated electric transmission and distribution business, by the Vice President-Human Resources of PPL Services Corporation) and under which each claimant shall receive notice in writing in the event any claim for benefits with respect to a Participant's participation in the Plan has been denied; such notice shall set forth the specific reasons for such denial. Such claims procedure shall also provide an opportunity for full and fair review by the Administrative Committee of the Employee Benefit Plan Board;

(b) In addition, to any other duties and powers it may possess, the Administrative Committee of the Employee Benefit Plan Board shall have the following specific duties and powers:

(1) to resolve questions or disputes relating to eligibility for distributions or the amount of distributions under the Plan;

(2) to interpret the provisions of the Plan;

The Employee Benefit Plan Board and the Administrative Committee of the Employee Benefit Plan Board shall have the discretionary authority and final right to interpret, construe and make benefit determinations (including eligibility and amount) under the Plan. The decisions of the Employee Benefit Plan Board and the Administrative Committee of the Employee Benefit Plan Board are final and conclusive for all purposes.

8.3 Reliance on Reports and Certificates. The members of the Employee Benefit Plan Board and the officers and directors of PPL, any Participating Company and PPL Corporation shall be entitled to rely upon all valuations, certificates and reports made by the Trustee or by any duly appointed accountant, and upon all opinions given by any duly appointed legal counsel.

8.4 Functions. The Employee Benefit Plan Board shall cause to be maintained such books of account, records and other data as may be necessary or advisable in its judgment for the purpose of the proper administration of the Plan.

8.5 Indemnification of the Employee Benefit Plan Board. Each member of the Employee Benefit Plan Board, the Administrative Committee, and each of their designees shall be indemnified by the Participating Companies against expenses (other

than amounts paid in settlement to which a Participating Company does not consent) reasonably incurred by him in connection with any action to which he may be a party by reason of the delegation to him of administrative functions and duties, except in relation to matters as to which he shall be adjudged in such action to be personally guilty of negligence or willful misconduct in the performance of his duties. The foregoing right to indemnification shall be in addition to such other rights as the member of the Employee Benefit Plan Board, the Administrative Committee, and each of their designees may enjoy as a matter of law or by reason of insurance coverage of any kind. Rights granted hereunder shall be in addition to and not in lieu of any rights to indemnification to which the member of the Employee Benefit Plan Board, the Administrative Committee and each of their designees may be entitled pursuant to the bylaws of PPL. Service on the Employee Benefit Plan Board shall be deemed in partial fulfillment of the Employee Benefit Plan Board member's function as an employee, officer and/or director of PPL or PPL Corporation, if he serves in such other capacity as well.

8 . 6 Allocation of Fiduciary Responsibilities. A fiduciary shall have only those specific powers, duties, responsibilities and obligations as are specifically given under this Plan or the Trust Agreement. A fiduciary may serve in more than one fiduciary capacity with respect to the Plan. It is intended that each fiduciary shall be responsible for the proper exercise of the fiduciary's own powers, duties, responsibilities and obligations under this Plan and the Trust Agreement, and generally shall not be responsible for any act or failure to act of another fiduciary.

ARTICLE IX
THE FUND

9.1 **Designation of Trustee.** PPL, by appropriate resolution of its Board of Directors, shall name and designate a Trustee and enter into a Trust Agreement with such Trustee. PPL shall have the power to amend the Trust Agreement, remove the Trustee, and designate a successor Trustee, all as provided in the Trust Agreement. All of the assets of the Plan shall be held by the Trustee for use in accordance with this Plan in providing for the benefits hereunder.

9.2 **Exclusive Benefit.** Prior to the satisfaction of all liabilities under the Plan in the event of termination of the Plan, no part of the corpus or income of the Fund shall be used for or diverted to purposes other than for the exclusive benefit of Participants and their beneficiaries except as expressly provided in this Plan and in the Trust Agreement.

9.3 **No Interest in Fund.** No persons shall have any interest in, or right to, any part of the assets or income of the Fund, except as to and to the extent expressly provided in this Plan and in the Trust Agreement.

9.4 **Trustee.** The Trustee shall be the fiduciary with respect to management and control of Plan assets held by it and shall have exclusive and sole responsibility for the custody and investment thereof in accordance with the Trust Agreement.

9.5 **Expenses.** All expenses of administration of this Plan shall be paid from the Fund unless they are paid directly by a Participating Company.

ARTICLE X
AMENDMENT OR TERMINATION OF THE PLAN

10.1 **Amendment.** Each Participating Company shall have the power to amend the Plan by or pursuant to action of its board of directors, but any such amendment to the Plan must be approved by PPL Services Corporation, and shall only apply to those Participants who are employees of the Participating Company authorizing the amendment. Any amendment that significantly affects the cost of the Plan or significantly alters the benefit design or eligibility requirements of the Plan shall be adopted by both PPL Services Corporation and any Participating Company whose employees are affected. In addition, the Employee Benefit Plan Board may adopt any amendment that does not significantly affect the cost of the Plan or significantly alter the benefit design or eligibility requirements of the Plan. Each amendment to the Plan will be binding on the Participating Company to which it applies. Except as expressly provided elsewhere in the Plan, prior to the satisfaction of all liabilities with respect to the benefits provided under this Plan, no such amendment or termination shall cause any part of the monies contributed hereunder to revert to PPL or to be diverted to any purpose other than for the exclusive benefit of Participants and their beneficiaries. No amendment shall have the effect of retroactively depriving Participants of benefits already accrued under the Plan. Upon complete termination of the Plan without establishment or maintenance of a successor plan (other than an employee stock ownership plan as defined in section 4975(e)(7) of the Code), Participants may receive distribution of their Accounts. Amendments to the allocation formulas contained in Article V shall not be made more frequently than once every six months.

10.2 Termination. The Plan and the Fund forming part of the Plan may be terminated or contributions completely discontinued at any time by or pursuant to action of the board of directors of PPL Corporation. In the event of a termination, partial termination, or a complete discontinuance of contributions or in the event PPL Corporation is dissolved, liquidated, or adjudicated a bankrupt, the interest of the Participants, their estates and beneficiaries, shall be nonforfeitable and shall be fully vested, and distributions shall be made to them in full shares of Stock and cash in lieu of fractional shares based on the price at which the Trustee sells such Stock or the fair market value thereof. When all assets have been paid out by the Trustee, the Fund shall cease. Any distribution after termination of the Plan may be made at any time, and from time to time, in whole or in part in full shares of Stock and cash in lieu of fractional shares based on the price at which the Trustee sells such Stock or the fair market value thereof; provided, however, that no Stock may be distributed to a Participant within seven years after the month in which such Stock was allocated to the Participant's Account except in the case of the Participant's retirement, Total Disability, death or other termination of employment with PPL and all Affiliated Companies. In making such distributions, any and all determinations, divisions, appraisals, apportionments and allotments so made shall be final and conclusive.

10.3 Special Rule. In the event that the Plan is terminated in accordance with Section 10.2, unallocated amounts held in a suspense account described in Section 5.5 shall be allocated among Participants, subject to the limitations of Section 5.5, in the year of termination and amounts which cannot be allocated by reason of the limitations

of Section 5.5 may be withdrawn from the Fund and returned to PPL or PPL Corporation.

10.4 **Merger.** The Plan shall not be merged with or consolidated with, or its assets be transferred to, any other qualified retirement plan unless each Participant would (assuming the Plan then terminated) receive a benefit after such merger, consolidation or transfer which is of actuarial value equal to or greater than the benefit he would have received from the value of his Account if the Plan had been terminated on the day before such merger, consolidation or transfer. No amounts shall be transferred to this Plan which would cause the Plan to be a direct or indirect transferee of a plan to which the joint and survivor annuity and pre-retirement survivor annuity requirements of sections 401(a)(11) and 417 of the Code apply.

ARTICLE XI
TOP HEAVY PROVISIONS

11.1 **General.** The following provisions shall apply automatically to the Plan and shall supersede any contrary provisions for each Plan Year in which the Plan is a Top Heavy Plan (as defined below). It is intended that this Article shall be construed in accordance with the provisions of section 416 of the Code.

11.2 **Definitions.** The following definitions shall supplement those set forth in Article II of the Plan:

(a) **"Aggregation Group"** shall mean:

(1) each plan (including a frozen plan or a plan which has been terminated during the 1-year period ending on the Determination Date) of PPL or an Affiliated Company in which a Key Employee is a participant,

(2) each other plan (including a frozen plan or a plan which has been terminated during the 1-year period ending on the Determination Date) of PPL or an Affiliated Company which enables any plan in which a Key Employee participates to meet the requirements of section 401(a)(4) or 410 of the Code, and

(3) each other plan (including a frozen plan or a plan which has been terminated during the 1-year period ending on the Determination Date) of PPL or an Affiliated Company which is included by the Employee Benefit Plan Board if the Aggregation Group, including such plan, would continue to meet the requirements of sections 401(a)(4) and 410 of the Code.

(b) **"Determination Date"** shall mean the last day of the preceding Plan Year, except for the first Plan Year, it shall mean the last day of that Plan Year.

(c) **"Key Employee"** shall mean any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date was an officer of the employer having annual compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of the employer, or a 1-percent owner of the employer having annual compensation of more than \$150,000. For this purpose, "annual compensation" means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(d) **"Key Employee Ratio"** shall mean the ratio for any Plan Year, calculated as of the Determination Date of such Plan Year, determined by comparing the amount described in Subsection (d)(1) with the amount described in Subsection (d)(2) after deducting from each such amount any portion thereof described in Subsection (d)(3).

(1) The sum of (A) the present value of all accrued benefits of Key Employees under all qualified defined benefit plans included in the Aggregation Group, (B) the balances in all of the accounts of Key Employees under all qualified defined contribution plans included in the Aggregation Group, and (C) the amounts distributed from all plans in such Aggregation Group to or on behalf of any Key Employee during the 1-year period ending on the Determination Date, except benefits paid on account of death in excess of the accrued benefit or account balances immediately prior to death. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section

416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, the provisions of the foregoing subsection (C) shall be applied by substituting "5-year period" for "1-year period."

(2) The sum of (A) the present value of all accrued benefits of all participants under all qualified defined benefit plans included in the Aggregation Group, (B) the balances in all of the accounts of all participants under all qualified defined contribution plans included in the Aggregation Group and (C) the amounts distributed from all plans in such Aggregation Group to or on behalf of any participant during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, the provisions of the foregoing subsection (C) shall be applied by substituting "5-year period" for "1-year period."

(3) The sum of (A) all rollover contributions (or fund to fund transfers) to the Plan by an Employee after December 31, 1983, from a plan sponsored by an employer which is not PPL or an Affiliated Company, (B) any amount that is included in Subsections (d)(1) and (2) for a person who is a Non-Key Employee as to the Plan Year of reference but who was a Key Employee as to any earlier Plan Year, and (C) for Plan Years beginning after December 31, 1984, any amount that is included in Subsections (d)(1) and (2) for a person who had not performed any services for PPL during the 1-year period ending on the Determination Date.

(4) The present value of accrued benefits under all qualified defined benefit plans included in the Aggregation Group shall be determined (A) on the basis of the 1971 TPF&C Forecast Mortality Table and an interest rate of six and one-half percent (6½%) and (B) under the accrual method used for all qualified defined benefit plans maintained by PPL or any Affiliated Company, if a single method is used for all such plans, or otherwise, the slowest accrual method permitted under section 411 (b) (1) (C) of the Code.

(e) **"Non-Key Employee"** shall mean any person who is an Employee or a former Employee of PPL or an Affiliated Company in any Plan Year but who is not a Key Employee as to that Plan Year. The term Non-Key Employee shall also include the beneficiaries of such persons.

(f) **"Top Heavy Plan"** shall mean each plan in an Aggregation Group if, as of the applicable Determination Date, the Key Employee Ratio exceeds sixty percent (60%) determined in accordance with section 416 of the Code.

11.3 **Minimum Contributions for Non-Key Employees.**

(a) In each Plan Year in which the Plan is a Top Heavy Plan, each Eligible Employee who is not a Key Employee (except an Eligible Employee who is not a Key Employee as to the Plan Year of reference but who was a Key Employee as to any earlier Plan Year or an Eligible Employee who is covered by a collective bargaining agreement) and who is actively employed by PPL on the last day of such Plan Year will receive a total minimum Company Contribution (including forfeitures) under all plans described in Section 11.2(a)(1) and (2) of not less than three percent (3%) of the Eligible Employee's annual compensation as defined in section 415 of the Code. Salary reduction

contributions to such plans made on behalf of an Eligible Employee in plan years beginning after December 31, 1984 but before January 1, 1989, shall be deemed to be Company Contributions for the purpose of this Subsection. Company Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to Company Contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Company Contributions that are used to satisfy the minimum contribution requirements shall be treated as Company Contributions for purposes of the actual contribution percentage test and other requirements of section 401(m) of the Code.

(b) The percentage set forth in Section 11.3(a) shall be reduced to the percentage at which contributions, including forfeitures are made (or are required to be made) for a Plan Year for the Key Employee for whom such percentage is the highest for such Plan Year. This percentage shall be determined for each Key Employee by dividing the contribution for such Key Employee by his compensation, as defined in section 415 of the Code, for the Plan Year, determined under Section 11.4. All defined contribution plans required to be included in an Aggregation Group shall be treated as one plan for the purpose of this Section 11.3; however, this Section 11.3(b) shall not apply to any plan which is required to be included in an Aggregation Group if such plan enables a defined benefit plan in such group to meet the requirements of section 401(a)(4) or section 410 of the Code.

(c) If a Non-Key Employee described in Subsection (a), participates in both a defined benefit plan and a defined contribution plan described in Sections 11.2(a)(1) and

(2) maintained by PPL, PPL is not required to provide such Employee with both the minimum benefit and the minimum contribution. Regulations prescribed by the Secretary of the Treasury shall serve to prevent inappropriate omissions or duplications of minimum benefits or contributions.

11.4 **Social Security.** The Plan for each Plan Year in which it is a Top Heavy Plan, must meet the requirements of this Article XI without regard to any Social Security or similar contributions or benefits.

ARTICLE XII
GENERAL PROVISIONS

12.1 **No Employment Rights.** Neither the action of PPL in establishing the Plan, nor any provisions of the Plan, nor any action taken by it or by the Employee Benefit Plan Board shall be construed as giving to any employee of a Participating Company the right to be retained in its employ, or any right to payment except to the extent of the benefits provided in the Plan to be paid from the Fund.

12.2 **Source of Benefits.** All benefits payable under the Plan shall be paid or provided for solely from the Fund, and neither any Participating Company nor PPL Corporation assume liability or responsibility therefor.

12.3 **Governing Law.** All questions pertaining to the validity, construction and operation of the Plan shall be determined in accordance with the laws of Pennsylvania, except to the extent superseded by ERISA.

12.4 **Spendthrift Clause.**

(a) No benefit payable at any time under this Plan, and no interest or expectancy herein shall be anticipated, assigned, or alienated by any Participant or beneficiary, or be subject to attachment, garnishment, levy, execution or other legal or equitable process, except for (1) an amount necessary to satisfy a federal tax levy made pursuant to section 6331 of the Code, (2) any benefit payable pursuant to a domestic relations order within the meaning of the Code or (3) an offset of a Participant's benefit as described in section 206(d)(4) of ERISA on account of a crime or fiduciary breach.

(b) Any attempt to alienate or assign such benefit, whether presently or thereafter payable, shall be void. No benefit shall in any manner be liable for or subject to the debts or liability of any Participant or beneficiary. If any Participant or beneficiary shall

attempt to, or shall, alienate or assign his benefits under the Plan or any part thereof, or if by reason of his bankruptcy or other event happening at any time, such benefits would devolve upon anyone else or would not be enjoyed by him, then the Employee Benefit Plan Board may terminate payment of such benefit and hold or apply it to or for the benefit of the Participant or beneficiary.

(c) The Employee Benefit Plan Board shall review any domestic relations order to determine whether it is qualified within the meaning of section 414(p) of the Code. An order shall not be qualified unless it complies with all applicable provisions of the Plan concerning mode of payment and manner of elections. Notwithstanding the preceding sentence and any restrictions on timing of distributions and withdrawals under the Plan, an order may provide for distribution immediately or at any other time specified in the order.

12.5 Incapacity. If the Employee Benefit Plan Board deems any Participant who is entitled to receive payments hereunder incapable of receiving or disbursing the same by reason of age, illness or infirmity or incapacity of any kind, the Employee Benefit Plan Board may direct the Trustee to apply such payment directly for the comfort, support and maintenance of such Participant or to pay the same to any responsible person caring for the Participant as determined by the Employee Benefit Plan Board to be qualified to receive and disburse such payments for the Participant's benefit, and the receipt of benefit such person shall be a complete acquittance for the payment of benefit. Payments pursuant to this Section 12.5 shall be complete discharge to the extent thereof of any and all liability of the Participating Companies,

PPL Corporation, the Employee Benefit Plan Board, the Administrative Committee (if any), the Trustee, and the Fund.

12.6 Gender and Number. Except where otherwise clearly indicated by context, the masculine shall include the feminine, the singular shall include the plural, and vice versa.

12.7 Voting or Tendering Stock. Each Participant (or, in the event of his or her death, his or her beneficiary) is, for purposes of this Section 12.7, hereby designated a “named fiduciary,” within the meaning of section 403(a)(1) of ERISA with respect to his or her proportionate number of shares of Stock (such proportionate number of shares being determined at the respective times such fiduciary rights are exercisable, as set forth below).

(a) **Voting Rights.** Each Participant (or beneficiary) shall have the right, to the extent of his or her proportionate number of shares of Stock (as determined in the last sentence of this Section 12.7(a)) to instruct the Trustee in writing as to the manner in which to vote such Stock at any stockholders’ meeting of PPL Corporation. PPL shall use its best efforts to timely distribute or cause to be distributed to each Participant (or beneficiary) the information distributed to stockholders of PPL Corporation in connection with any such stockholders’ meeting, together with a form requesting confidential instructions to the Trustee on how such shares of Stock shall be voted on each such matter. Upon timely receipt of such instructions, the Trustee shall, on each such matter, vote as directed the appropriate number of shares of Stock (including fractional shares). An individual’s proportionate number of shares of Stock held in the trust shall be equal to the product of multiplying the total number of shares of Stock by a fraction, the numerator of

which shall be the respective number of shares of Stock which are held in such individual's account for which he or she provides instructions to the Trustee and the denominator of which shall be the number of shares of Stock in all such accounts for which instructions are provided to the Trustee.

(b) **Rights on Tender or Exchange Offer.** Each Participant (or beneficiary) shall have the right, to the extent of his or her proportionate number of shares of Stock (as determined in the last sentence of this Section 12.7(b)) of shares to instruct the Trustee in writing as to the manner in which to respond to a tender or exchange offer with respect to such Stock. PPL shall use its best efforts to timely distribute or cause to be distributed to each such Participant (or beneficiary) the information distributed to stockholders of PPL Corporation in connection with any such tender or exchange offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to such shares. If, and to the extent that, the Trustee shall not have received timely instructions from any individual given a right to instruct the Trustee with respect to certain shares of Stock by the first sentence of this Section 12.7(b), such individual shall be deemed to have timely instructed the Trustee not to tender or exchange such shares of Stock. An individual's proportionate number of shares of Stock shall be equal to the product of multiplying the total number of shares of Stock by a fraction, the numerator of which shall be the number of shares which are held in such individual's account and the denominator of which shall be the total number of shares of Stock.

(c) **Confidentiality.** All instructions received by the Trustee from individual participants (or beneficiaries) pursuant to this Section 12.7 shall be held by the Trustee in strict confidence and shall not be divulged or released to any person; provided, that, to

the extent necessary for the operation of the Plan or compliance with applicable law, such instructions may be relayed by the Trustee to a recordkeeper, auditor or other person providing services to the Plan or responsible for monitoring compliance with applicable laws, if such person is either:

- (1) a person who is not a Participating Company or an Affiliated Company or an employee, officer or director of a Participating Company or an Affiliated Company and who agrees not to divulge such instructions to any other person, including a Participating Company, an Affiliated Company, or employees, officers and directors of a Participating Company or an Affiliated Company; or
 - (2) a person who is an employee of a Participating Company or an Affiliated Company, if such person is specifically authorized by the Employee Benefit Plan Board to receive such information pursuant to confidentiality procedures designed to safeguard the confidentiality of such information. The Employee Benefit Plan Board shall be responsible for monitoring compliance with such procedures, for the adequacy of such procedures, and for appointing an independent fiduciary to carry out activities relating to any situation that, in the determination of the Employee Benefit Plan Board, involves a potential for undue employer influence on Participants (or beneficiaries) with regard to their exercise of rights under this Section 12.7.
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12.8 Use of Loan Proceeds. Subject to 12.9, no Stock acquired with the proceeds of an exempt loan (within the meaning of section 4975(e)(7) of the Code) shall be subject to a put, call, or other option or buy-sell or similar arrangement while held by or when distributed from the Plan, whether or not the Plan is an employee stock ownership plan at such time.

12.9 Put Option. In the event the Stock is ever not readily tradeable on an established market (whether or not the Plan is an employee stock ownership plan at such time), PPL or PPL Corporation shall issue a "put option" to each Participant or beneficiary receiving a distribution of Stock from the Plan. Such put option shall permit the Participant or beneficiary to sell such Stock to PPL or PPL Corporation, at any time during two option periods (described below), at the then fair-market value, as determined by an independent appraiser (as defined in section 401(a)(28) of the Code). The first put option period shall be a period of 60 days commencing on the date the Stock is distributed to the Participant or beneficiary. If the put option is not exercised within that period, it will temporarily lapse. Upon the close of the Plan Year in which such temporary lapse of the put option occurs, the Employee Benefit Plan Board shall establish the value of the Stock, as determined by an independent appraiser, and shall notify each distributee who did not exercise the initial put option prior to its temporary lapse in the preceding Plan Year of the revised value of the Stock. The second period during which the put option may be exercised shall commence on the date such notice of revaluation is given and shall permanently terminate 60 days thereafter. The Trustee may be permitted by PPL to purchase Stock tendered to PPL or PPL Corporation under

a put option. The Participant may elect that the payment for Stock sold pursuant to a put option shall be made in one of the following forms:

(a) in substantially equal annual installments commencing within 30 days from the date of the exercise of the put option and over a period not exceeding five years, with interest payable at a reasonable rate on any unpaid installment balance, with adequate security provided, and without penalty for any prepayment of such installments; or

(b) in a lump sum as soon as practicable after the exercise of the put option.

The Trustee, on behalf of the Trust, may offer to purchase any shares of Stock (which are not sold pursuant to a put option) from any former Participant or beneficiary, at any time in the future, at their then fair-market value as determined by an independent appraiser.

12.10 Compliance with Rule 16b-3. With respect to Participants subject to section 16 of the Securities Exchange Act of 1934, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the Plan or action by the Board of Directors, the board of directors of PPL Corporation or Employee Benefit Plan Board involving such a Participant is deemed not to comply with an applicable condition of Rule 16b-3, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Board of Directors, the board of directors of PPL Corporation or Employee Benefit Plan Board.

ARTICLE XIII
TREATMENT OF RETURNING VETERANS

13.1 **Applicability and Effective Date.** The rights of any Returning Veteran who resumes employment with a Participating Company on or after December 12, 1994 shall be modified as set forth in this Article.

13.2 **Eligibility to Participate.** For purposes of Section 3.1,

(a) A Returning Veteran who was an Eligible Employee immediately prior to his Qualified Military Service shall be deemed to have remained an Eligible Employee throughout his Qualified Military Service.

(b) A Returning Veteran who would have become an Eligible Employee during the period of his Qualified Military Service, but for the resulting absence from employment, shall be deemed to have become an Eligible Employee as of the date he would have become an Eligible Employee if he had not entered into Qualified Military Service.

13.3 **Restoration of Dividend-based Contributions.** With respect to any Plan Year for which a Returning Veteran would have been a Participant, but failed to share in Dividend-based Contributions solely by reason of his Qualified Military Service, the Participating Company shall contribute to such Participant's Account an amount equal to the Dividend-based Contributions that would have been allocated to his Account, but for his absence for Qualified Military Service. Such contribution shall not include the earnings that would have accrued on such amount.

13.4 **Determination of Compensation.** For purposes of determining the amount of any contributions under Section 13.3 and for applying the limits of Section 5.5, a Participant's compensation during any period of Qualified Military Service shall be deemed to equal either:

(a) the compensation he would have received but for such Qualified Military Service, based on the rate of pay he would have received from a Participating Company; or

(b) if the amount described in (a) above is not reasonably certain, his average compensation from a Participating Company during the 12-month period immediately preceding the Qualified Military Service (or, if shorter, the period of employment immediately preceding the Qualified Military Service). Such amount shall be adjusted as necessary to reflect the length of the Participant's Qualified Military Service.

13.5 Application of Certain Limitations. For purposes of applying the limitations of Section 5.5, any contributions described in Section 13.3, shall be treated as contributions for the Limitation Year to which they relate, rather than the Limitation Year in which they are actually made.

13.6 Administrative Rules and Procedures. The Employee Benefit Plan Board shall establish such rules and procedures as it deems necessary or desirable to implement the provisions of this Article, provided that they are not in violation of the Uniformed Services Employment and Reemployment Rights Act of 1994, any regulations thereunder, or any other applicable law.

13.7 Additional Benefits Upon Death. Notwithstanding anything in the Plan to the contrary, if a Participant dies on or after January 1, 2007, while performing 'qualified military service,' the beneficiary of the Participant is entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant resumed and then terminated employment on account of death. 'Qualified military service' is service in the uniformed services (as

defined in chapter 43 of Title 38, United States Code) while the Participant is entitled to reemployment rights under USERRA with respect to such service. Moreover, the Plan will credit the Participant's qualified military service for vesting purposes, as though the Participant resumed employment under USERRA immediately prior to death.

Executed this ____ day of December, 2016.

EMPLOYEE BENEFIT PLAN BOARD OF
PPL CORPORATION

By _____
Julissa Burgos
Chair

Appendix A

Participating Company

<u>Name</u>	<u>Effective Date</u>
1. PPL Services Corporation	July 1, 2000
2. PPL Electric Utilities Corporation	January 1, 1975
3. PPL EnergyPlus, LLC	July 14, 1998 (not participating as of June 1, 2015)
4. PPL Generation, LLC	July 1, 2000 (not participating as of June 1, 2015)
5. PPL Brunner Island, LLC	July 1, 2000 (not participating as of June 1, 2015)
6. PPL Holtwood, LLC	July 1, 2000 (not participating as of June 1, 2015)
7. PPL Martins Creek, LLC	July 1, 2000 (not participating as of June 1, 2015)
8. PPL Montour, LLC	July 1, 2000 (not participating as of June 1, 2015)
9. PPL Susquehanna, LLC	July 1, 2000 (not participating as of June 1, 2015)
10. PPL Solutions, LLC	January 1, 2002 (not participating as of July 1, 2016)
11. Lower Mount Bethel Energy, LLC	September 30, 2002 (not participating as of June 1, 2015)
12. PPL Development Company, LLC	January 1, 2006
13. PPL Global, LLC	January 1, 2006
14. PPL Energy Services Group, LLC	September 25, 2006 (not participating as of June 1, 2015)
15. PPL Interstate Energy Company	January 1, 2008 (not participating as of June 1, 2015)
16. PPL Strategic Development, LLC	January 1, 2012

Appendix A

Participating Company

<u>Name</u>	<u>Effective Date</u>
17. PPL EnergyPlus Retail, LLC	June 23, 2011 (not participating as of June 1, 2015)
18. PPL Energy Supply, LLC	September 17, 2012 (not participating as of June 1, 2015)
19. PPL TransLink, Inc.	February 11, 2016
20. PPL EU Services Corporation	Effective January 1, 2015

Schedule A

Effective July 1, 2000

- A. For all Participating Companies, "**Compensation**" shall mean the annual compensation received by an Employee from a Participating Company as reported on Internal Revenue Service Form W-2 or a successor form plus the Employee's elective deferrals under the Employee Savings Plan or Deferred Savings Plan; provided, however, that Compensation shall not include bonuses or fringe benefits not normally included in compensation, such as tuition refunds, moving expenses, etc. and shall not, for purposes of allocation under Section 5.2(a), include any amount in excess of (i) for the 1975 and 1976 Plan Years, \$16,000 and (ii) commencing with the 1977 Plan Year, the median annual compensation of all Participants during the Plan Year or \$100,000, whichever is less. Such median compensation shall be determined as of the close of a Plan Year and shall be rounded to an even thousand dollars. Compensation shall also include the additional compensation listed below, for Participants in the Participating Company listed herein.
- B. Effective January 1, 2000 only the following additional compensation for the following Participating Companies shall be included in Compensation, as defined in this Schedule A.
1. PPL Electric Utilities Corporation (formerly PP&L, Inc.), PPL EnergyPlus, LLC (formerly PP&L EnergyPlus Co., LLC), PPL Services Corporation, PPL Generation, LLC, PPL Brunner Island, LLC, PPL Holtwood, LLC, PPL Martins Creek, LLC, PPL Montour, LLC, PPL Susquehanna, LLC, PPL Telcom, LLC (effective 2/5/01), PPL Solutions, LLC (effective 1/1/02), Lower Mount Bethel Energy, LLC (effective 9/30/02), PPL Edgewood Energy, LLC (effective 4/1/03), PPL Maine, LLC (effective 4/1/03), PPL Wallingford Energy, LLC (effective 4/1/03), PPL Development Company,

LLC (effective 1/1/06), PPL Global, LLC (effective 1/1/06), and PPL Energy Services Group, LLC (effective 9/25/06).

a) Any single sum award paid from the variable compensation fund created annually with a percentage of annualized base salaries in accordance with the Managers Compensation Plan.

2. PPL EnergyPlus, LLC (formerly PP&L EnergyPlus Co., LLC):

a) Any sales incentive award paid as a single sum on an annual basis.

SCHEDULE B

Schedule Of Minimum Distribution Requirements

Section 1. General Rules

1.1 Effective Date. The provisions of this Schedule will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

1.2 Precedence. The requirements of this Schedule will take precedence over any inconsistent provisions of the Plan.

1.3 Requirements of Treasury Regulations Incorporated. All distributions required under this Schedule will be determined and made in accordance with the Treasury regulations under section 401(a)(9) of the Code.

1.4 TEFRA Section 242(b)(2) Elections. Notwithstanding the other provisions of this Schedule, distributions may be made under a designation made before January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to section 242(b)(2) of TEFRA.

Section 2. Time and Manner of Distribution.

2.1 Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

2.2 Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this section 2.2, other than section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this section 2.2 and section 4, unless section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under section 2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse

before the date distributions are required to begin to the surviving spouse under section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3 Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with sections 3 and 4 of this Schedule. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of section 401(a)(9) of the Code and the Treasury regulations.

Section 3. Required Minimum Distributions During Participant's Lifetime.

3.1 Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

- (a) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or
 - (b) if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury regulations, using
-

the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2 Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this section 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

Section 4. Required Minimum Distributions After Participant's Death.

4.1 Death On or After Date Distributions Begin.

(a) *Participant Survived by Designated Beneficiary*. If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life

expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b)*No Designated Beneficiary.* If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2 Death Before Date Distributions Begin.

(a)*Participant Survived by Designated Beneficiary.* If the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in section 4.1.

(b)*No Designated Beneficiary*. If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c)*Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin*. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under section 2.2(a), this section 4.2 will apply as if the surviving spouse were the Participant.

Section 5. Definitions.

5.1 Designated beneficiary. The individual who is designated as the beneficiary under Section 7.3 of the Plan and is the designated beneficiary under section 401(a)(9) of the Code and section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

5.2 Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under section 2.2. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the

distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3 Life expectancy. Life expectancy as computed by use of the Single Life Table in section 1.401(a)(9)-9 of the Treasury regulations.

5.4 Participant's account balance. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in Section 7.7 of the Plan.

FOURTH SUPPLEMENTAL INDENTURE
Dated as of December 1, 2016

FOURTH SUPPLEMENTAL INDENTURE, dated as of December 1, 2016, among PPL UK Distribution Holdings Limited (formerly PPL WW Holdings Limited (formerly known as Western Power Distribution Holdings Limited)), a company incorporated under the laws of England and Wales (the "Company"), Western Power Distribution plc, a company incorporated under the laws of England and Wales ("WPD"), PPL UK Management Partners, a general partnership formed under the laws of England and Wales (the "New Obligor") and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), a New York banking corporation, as Trustee under the Indenture, as defined below (the "Trustee").

W I T N E S S E T H:

WHEREAS, WPD Holdings UK (the "Original Issuer") has heretofore executed and delivered to the Trustee an indenture dated as of March 16, 2001 (as supplemented and amended, the "Indenture"), to provide for the issuance by it of its indebtedness;

WHEREAS, the Original Issuer has heretofore executed and delivered to the Trustee a first supplemental indenture dated as of March 16, 2001, to create multiple series of securities to be issuable under the Indenture, including one series of the Original Issuer's 7.25% Notes Due 2017 and one series of the Original Issuer's 7.375% Notes Due 2028 (together, the "Securities");

WHEREAS, the Original Issuer and the Company have heretofore executed and delivered to the Trustee a second supplemental indenture dated as of January 30, 2003, to convey and transfer the Original Issuer's properties and assets substantially as an entirety under the Indenture, the Securities and all other documents, agreements and instruments related thereto to the Company, as the successor entity, which thereby expressly assumed the Original Issuer's applicable obligations on the Securities;

WHEREAS, the Company and WPD (together, the "Existing Obligors") have heretofore executed and delivered to the Trustee a third supplemental indenture dated as of October 31, 2014, under which WPD assumed, as full and equal co-obligor of the Company, all of the Company's obligations under the Indenture and the Securities and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, pursuant to Article One of this Fourth Supplemental Indenture, the New Obligor will assume, as full and equal co-obligor of the Existing Obligors, all of the Existing Obligors' obligations under the Indenture and the Securities and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, pursuant to Article VIII and Article IX of the Indenture, the Existing Obligors, the New Obligor and the Trustee may enter into this Fourth Supplemental Indenture; and

WHEREAS, all other acts necessary to make this Fourth Supplemental Indenture a valid, binding and enforceable instrument, and all of the conditions and requirements set forth in the Indenture, have been performed and fulfilled and the execution and delivery of this Fourth Supplemental Indenture have been in all respects duly authorized.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the Existing Obligors, New Obligor and Trustee hereby agrees for the other parties' benefit, and for the equal ratable benefit of the Holders, as follows:

ARTICLE ONE

ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR

Section 1.01 ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR. The New Obligor hereby agrees that as of the date hereof it expressly, and without any further action being necessary, assumes all of the Existing Obligors' obligations under the Indenture and the Securities and the due and punctual performance and observance of all the covenants and conditions to be performed or observed by the Existing Obligors pursuant to the Indenture and the Securities in accordance with Section 801 of the Indenture, as if originally named the Company under the Indenture.

Section 1.02 WAIVER OF DISCHARGE OF OBLIGATIONS BY THE EXISTING OBLIGORS. Each of the Existing Obligors hereby agrees to waive the discharge under Section 802 of the Indenture of its obligations under the Indenture and the Securities; and without any further action being necessary, hereby reaffirms and agrees to comply with its obligations as the Company under the Indenture and the Securities and the due and punctual performance and observance of all the covenants and conditions to be performed or observed pursuant to the Indenture and the Securities in accordance with the Indenture.

Section 1.03 CO-OBLIGORS. Each of the Existing Obligors and New Obligor hereby agrees to act as co-obligors, jointly and severally, and fully and unconditionally liable on the Securities; each shall be considered for purposes of the Indenture to be the issuer of the Securities; and the Indenture and the Securities shall be construed and/or deemed amended in light of, and in order to give full effect to, the foregoing.

ARTICLE TWO

MISCELLANEOUS

Section 2.01 CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

Section 2.02 EXECUTION AS SUPPLEMENTAL INDENTURE. This Fourth Supplemental Indenture is executed as and shall constitute an Indenture supplemental to the Indenture, and the Indenture and this Fourth Supplemental Indenture shall form a part of the Indenture.

Section 2.03 CONFIRMATION. The Indenture as amended and supplemented by this Fourth Supplemental Indenture is in all respects confirmed and preserved.

Section 2.04 COUNTERPARTS. This Fourth Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

Section 2.05 EFFECT OF HEADINGS. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 2.06 SEPARABILITY CLAUSE. In case any provision in this Fourth Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.07 GOVERNING LAW. This Fourth Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.08 TRUSTEE MAKES NO REPRESENTATION. The Trustee makes no representation as to the validity or sufficiency of this Fourth Supplemental Indenture or the statements made in the recitals of this Fourth Supplemental Indenture.

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IN WITNESS WHEREOF, the parties hereof have caused this Fourth Supplemental Indenture to be duly executed by their respective officers or directors duly authorized thereto, all as of the day and year first above written.

PPL UK Distribution Holdings Limited

By: _____
Name:
Title:

Western Power Distribution plc

By: _____
Name:
Title:

PPL UK Management Partners

By: _____
Name:
Title:

Deutsche Bank Trust Company Americas,
as Trustee

By: Deutsche Bank National Trust Company

By: _____
Name:
Title:

By: _____
Name:
Title:

Important Notice

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) (REGULATION S)) LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the Prospectus) and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC OR WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC (TOGETHER, THE ISSUERS) IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia, (d) you have not duplicated, distributed, forwarded, transferred or otherwise transmitted the Prospectus or any other presentational or other materials concerning this offering (including electronic copies thereof) to any persons within the United States and agree that such materials shall not be duplicated, distributed, forwarded, transferred or otherwise transmitted by you, (e) you have made your own assessment concerning the relevant tax, legal and other economic considerations relevant to an investment in the securities of the Issuers and (f) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005. The materials relating to this offering (including the Prospectus) do

not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuers, Banco Santander, S.A., Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEAplc, RBC Europe Limited or The Royal Bank of Scotland plc nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, Banco Santander, S.A., HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEA plc, RBC Europe Limited or The Royal Bank of Scotland plc.

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366923)

and

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366985)

and

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366894)

and

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 03600574)

£3,000,000,000

Euro Medium Term Note Programme

Under this £3,000,000,000 Euro Medium Term Note Programme (the **Programme**), Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (South Wales) plc (**WPD South Wales**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (West Midlands) plc (**WPDW**) and, together with WPDE, WPD South Wales and WPD South West, the **Issuers**, and each, an **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer of such Notes (the **Relevant Issuer**) and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £3,000,000,000 (or its equivalent in other currencies calculated as described in the amended and restated dealer agreement dated 9 September 2016, as amended or supplemented from time to time, the **Dealer Agreement**), subject to increase as described in this Prospectus.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Description of the Programme" and any additional Dealer appointed under the Programme from time to time by the Relevant Issuers (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Financial Conduct Authority (the **FCA**) in its capacity as competent authority (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to be admitted to trading on the London Stock Exchange's (the **London Stock Exchange**) regulated market.

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of the Notes will (other than in the case of Exempt Notes, as defined below) be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to the Notes to be admitted to the Official List and admitted to trading by the London Stock Exchange on the regulated market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service. In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**). In this Prospectus, any reference to Final Terms shall, in the case of Exempt Notes, be construed as a reference to the relevant Pricing Supplement.

The Programme provides that the Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets as may be agreed between the Relevant Issuer, the Note Trustee (as defined below) and the relevant Dealer(s). The Relevant Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any regulated or unregulated market (**Exempt Notes**). The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with Exempt Notes.

Each Series (as defined in "Overview of the Programme") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a **temporary Global Note**) or a permanent global note in bearer form (each a **permanent Global Note**). Notes in registered form will be represented by registered certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series (a **Global Certificate**). If the global notes (the **Global Notes** and each a **Global Note**) are stated in the applicable Final Terms to be issued in new global note (NGN) form they are intended to be eligible collateral for Eurosystem monetary policy and, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Registered Notes issued in global form will be represented by registered global certificates (**Global Certificates**). If a Global Certificate is held under the New Safekeeping Structure (the **NSS**) the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form (**Classic Global Notes** or **CGNs**) and Global Certificates which are not held under the NSS will be deposited on the issue date to of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the **Common Depositary**).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "Form of the Notes".

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued.

Each of the Issuers has been rated by Moody's Investors Service Limited (**Moody's**) and/or Standard & Poor's Credit Market Services Europe Limited (**S&P**). Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Moody's and S&P is included in the list of credit agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to "Credit ratings may not reflect all risks" in the Risk Factors section of this Prospectus.

Prospective investors should consider carefully the risks set forth under Risk Factors on pages 14 to 22 prior to making investment decisions with respect to the Notes.

Co-Arrangers		
Barclays		The Royal Bank of Scotland
	Dealers	
Barclays		BofA Merrill Lynch
HSBC		Lloyds Bank
Mizuho Securities		MUFG
RBC Capital Markets		Santander Global Corporate Banking
		The Royal Bank of Scotland

The date of this Prospectus is 9 September 2016

IMPORTANT INFORMATION

This Prospectus comprises a base prospectus, in respect of all Notes other than Exempt Notes issued under the Programme, for the purposes of Article 5.4 of the Prospectus Directive. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area) and for the purpose of giving information with regard to the Relevant Issuer and the Notes which, according to the particular nature of the Relevant Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Relevant Issuer.

This Prospectus shall be read and construed in conjunction with any amendment or supplement hereto. Furthermore, in relation to any Series of Notes, this Prospectus should be read and construed together with the relevant Final Terms.

The Issuers have each undertaken to the Co-Arrangers and the Dealers in the Programme to comply with section 87G of the Financial Services and Markets Act 2000 (the **FSMA**). Following the publication of this Prospectus, a supplement may be prepared by the Issuers and approved by the UK Listing Authority which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

Each Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of each of the Issuers (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus, is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuers are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The rating of certain Tranches of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. Please also refer to “*Credit Ratings may not reflect all risks*” in the *Risk Factors* section of this Prospectus.

Copies of each set of Final Terms will be available from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Notes to be admitted to the Official List) will be available from the registered office of the Relevant Issuer.

Neither the Co-Arrangers, the Dealers nor the Note Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Co-Arrangers, the Dealers or the Note Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers in connection with the Programme.

No person is or has been authorised by the Issuers, any of the Co-Arrangers, the Dealers or the Note Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Co-Arrangers, any Dealer or the Note Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Co-Arrangers, any of the Dealers or the Note Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers, the Co-Arrangers, any of the Dealers or the Note Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Co-Arrangers, the Dealers and the Note Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Co-Arrangers, the Dealers and the Note Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Co-Arrangers, the Dealers or the Note Trustee which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom: see “Subscription and Sale”. Neither the Issuers, the Co-Arrangers nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a prospectus for such offer.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

All references in this document to **Sterling** and **£** refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, references to **euro** and **€** refer to the currency introduced at the start of the third stage of the Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, and references to **U.S. Dollars** and **\$** refer to the lawful currency for the time being of the United States of America.

In making an investment decision, investors must rely on their own examination of the Issuers and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

NOTES ISSUED BY AN ISSUER ARE OBLIGATIONS SOLELY OF THAT ISSUER AND ARE ISSUED WITHOUT ANY RECOURSE WHATSOEVER TO THE OTHER ISSUERS HEREUNDER.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the **Stabilisation Manager(s)**) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of such Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW OF THE PROGRAMME

The following description does not purport to be complete and is taken from, and is qualified in its entirety by (i) the remainder of this Prospectus and (ii) in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this Overview.

Issuers Western Power Distribution (East Midlands) plc

Western Power Distribution (South Wales) plc

Western Power Distribution (South West) plc

Western Power Distribution (West Midlands) plc

Description Euro Medium Term Note Programme

Co-Arrangers Barclays Bank PLC

The Royal Bank of Scotland plc

Dealers Banco Santander, S.A.

Barclays Bank PLC

HSBC Bank plc

Lloyds Bank plc

Merrill Lynch International

Mizuho International plc

MUFG Securities EMEA plc

RBC Europe Limited

The Royal Bank of Scotland plc

and any other Dealers appointed in accordance with the Dealer Agreement.

Certain Restrictions Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale”).

Note Trustee HSBC Corporate Trustee Company (UK) Limited

**Issuing and Paying Agent,
Registrar, Transfer Agent
and Calculation Agent** HSBC Bank plc

Method of Issue:

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a **Series**) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a **Tranche**) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.

Programme Size	Up to £3,000,000,000 (or its equivalent in other currencies, calculated as described in the Dealer Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution	Notes may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Relevant Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Issuer or the relevant Specified Currency.
Issue Price	Notes will be issued on a fully-paid basis and may be issued and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in “Form of the Notes”. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year, otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “Global Certificates”. A beneficial interest in a Global Certificate may be transferable for a Certificate in definitive form only in accordance with the rules and operating procedures of the relevant clearing system for the time being and in accordance with the detailed regulations in the Agency Agreement.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Relevant Issuer and the relevant Dealer.
Floating Rate Notes	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service at the relevant time. <p>The margin (if any) relating to such floating rate will be agreed between the Relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Interest Notes and Index Linked Redemption Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to the UK Retail Price Index. Index Linked Redemption Notes and Index Linked Interest Notes may also specify a Minimum Indexation Factor or a Maximum Indexation Factor.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest, a step-up in the interest rate after a certain date (or any combination of the foregoing).
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Interest Periods and Interest Payment Dates:	The Notes (other than the Zero Coupon Notes) will have such interest periods and interest payment dates as the Issuer and the relevant Dealer may agree in relation to a particular Tranche of Notes.
Redemption by the Relevant Issuer	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the Relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Relevant Issuer and the relevant Dealer.
Redemption at Option of the Noteholders on a Restructuring Event	The Notes issued may also be redeemed at the option of the Noteholders in certain circumstances following the occurrence of a Restructuring Event, as more particularly set out in Condition 6(g) (<i>Redemption at the Option of the Noteholders on a Restructuring Event</i>).
Redemption at the Option of Noteholders	If an Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption, as more particularly set out in Condition 6(f) (<i>Redemption at the Option of Noteholders</i>).
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Relevant Issuer and the relevant Dealer and as specified in the applicable Final Terms save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the date of issue of the Notes).
Taxation	All payments in respect of the Notes will be made without withholding or deduction for or on account of withholding taxes imposed by the United Kingdom, unless such deduction or withholding is required by law. In the event that any such withholding or deduction is required by law, the Relevant Issuer will, save in certain limited circumstances provided in Condition 10 (<i>Taxation</i>), be required to pay additional amounts that result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required.
Negative Pledge and Restriction on Distribution of Dividends	The terms of the Notes will contain a negative pledge provision and a restriction on the distribution of dividends as further described in Condition 4 (<i>Negative Pledge and Restriction on Distribution of Dividends</i>).

Cross Acceleration	The terms of the Notes will contain a cross acceleration provision which applies in respect of each Relevant Issuer (and not in respect of the other Issuers' obligations) as further described in Condition 12 (<i>Events of Default</i>).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 (<i>Status</i>)) unsecured obligations of the Relevant Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Relevant Issuer, from time to time outstanding.
Ratings	<p>Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Where Ratings Downgrade Rate Adjustment is specified as being applicable in the Final Terms, the Rate of Interest applicable to the Notes may be subject to adjustment upon a downgrading of the rating of the Notes as more fully described in the "Terms and Conditions of the Notes".</p> <p>Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.</p>
Listing and admission to trading	<p>Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to admit the Notes to trading on the Regulated Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Relevant Issuer and the relevant Dealer in relation to the Series.</p> <p>Notes which are neither listed nor admitted to trading may also be issued. The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with such Exempt Notes.</p>
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by English law.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom), and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale".

RISK FACTORS

In purchasing Notes, investors assume the risk that any of the Issuers may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in any of the Issuers becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuers may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuers' control. The Issuers have identified in this Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Noteholders may lose the value of their entire investment in certain circumstances.

Words and expressions defined in "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meaning in this section.

Factors that may affect each Issuer's ability to fulfil its obligations under the Notes under the Programme

Regulatory Risk

Under current regulation by the Great Britain Office of Gas and Electricity Markets (**Ofgem**), each Issuer's allowed revenue is determined by the distribution price controls set out under the terms of its distribution licence, and has typically been set by Ofgem every five years. However from 1 April 2015, the start of the new distribution price control review (**RIIO-ED1**), the period has been extended to eight years. Each Issuer has agreed the price control with Ofgem that covers the eight-year period from 1 April 2015 to 31 March 2023. Therefore, unless Ofgem reopens the price control, which the Issuers consider unlikely, there is a high degree of certainty as to the level of revenue permitted by regulation until 31 March 2023.

However, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Relevant Issuer to meet its respective payment obligations under the Notes. There can also be no assurance that net operating revenues generated by the Relevant Issuer will be sufficient to meet such payment obligations.

Macroeconomic and geopolitical risk

The "leave" vote in the United Kingdom's recent referendum on its membership of the European Union is likely to have a significant impact on general macro-economic conditions in the United Kingdom. As at the date of this Prospectus, each of the three major credit rating agencies has taken rating actions against the United Kingdom's sovereign credit ratings, with Standard & Poor's downgrading the United Kingdom by two notches from AAA to AA, Fitch imposing a one notch downgrade on the sovereign from AA+ to AA and Moody's changing the outlook in respect of the United Kingdom's existing Aa1 rating from stable to negative. In the immediate aftermath of the result, there were material devaluations in currency, with sterling depreciating to a 31-year low against the U.S. dollar. The performance of global financial markets has also been materially affected, with international equity markets being particularly impacted in the days following the referendum result. While the longer-term impact of the "Brexit" vote on global debt and equity markets, exchange rates

and on the political and macro-economic climate generally is uncertain, it is likely that there will continue to be a period of volatility across international financial markets until the precise terms of the United Kingdom's exit from the European Union become clear. As such, no assurance can be given that such matters would not adversely affect the fiscal, monetary and regulatory landscape to which the Group is subject, the ability of the Issuers to satisfy their respective obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

Distribution licence

Failure by an Issuer to comply with the terms of its distribution licence may lead to Ofgem making an enforcement order or levying a fine on it. In respect of each Issuer, Ofgem has the power to levy fines of up to 10 per cent. of turnover of that Issuer for any breach of its distribution licence. While the distribution licence of an Issuer may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings affecting such Issuer, it otherwise continues indefinitely until revoked following no less than 25 years' written notice.

Retail price index movements and cost-base variations

The annual revenues of each Issuer are adjusted by the published retail price index (**RPI**) in the United Kingdom. There is therefore a risk that each Issuer's cost base may increase at a faster rate than the RPI due to inflation as measured by the RPI being less than the rate of inflation on components of the licensee's cost base, even though Ofgem's price control does allow for some cost increases in excess of RPI. If that were to happen, each Issuer's profitability would be reduced and, if the differential between RPI-linked inflation and experienced operating cost inflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations. The effects of deflation would also be similar. The annual revenue of each Issuer may reduce at a greater degree to any deflationary impact on the component costs of the business. Again if this were to happen each Issuer's profitability would be reduced and, if the differential between RPI-linked deflation and experienced operating cost deflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations

Change to measure of inflation

On 8 January 2015, the UK Statistics Authority published a review recommending that the Office for National Statistics adopt the so-called "CPIH" measure of inflation (which, among other things, would include housing costs in its measure of inflation) as its main measure of inflation.

As at 31 March 2016, Ofgem has taken the decision to retain RPI as the inflation index; however if Ofgem decides to use the CPIH measure of inflation in the future, after the expiry of the RIIO-ED1 period, this could have an impact on the Issuers' revenue growth and, ultimately, on their respective businesses, financial positions and results of operations.

Supply Installation Regulations

Failure to comply with current supply installation regulations could lead to prosecution by the Department of Energy and Climate Change. While each Issuer has robust inspection and maintenance programmes in place to mitigate this risk, no assurance can be given that an Issuer will not be subject to such action in the future.

Health and Safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive (the **HSE**). Each Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees. However, assurance can be given that an Issuer will not be subject to HSE action in the future.

Ofgem Requirements

Each Issuer's activities are regulated by Ofgem. Failure to operate the network properly could lead to compensation payments or penalties or loss of incentive revenues under incentive arrangements. Failure to invest capital expenditure in line with agreed programmes could also lead to deterioration of the network and clawback of investment deferred if specified outputs are not met. While each Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over an eight-year period and reduce customer interruptions and customer minutes lost over the period, no guarantee can be given that these regulatory requirements will be met.

IT Systems

Each Issuer relies on a number of key IT systems for network operation. Failure to plan and execute suitable contingencies in the event of critical IT system breakdowns could result in poor customer service and/or an inability to operate the network effectively. Each Issuer has robust contingency plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given as to their effectiveness going forward.

Environment

Failure to comply with legislation in the event of an environmental incident could lead to prosecution by the Environment Agency. While each Issuer has robust operating, inspection and maintenance procedures in place to mitigate this risk, ongoing compliance cannot be guaranteed.

Storm Related Supply Interruptions

Failure to manage storm related supply interruptions adequately could lead to negative customer perception, adverse publicity and a potential financial impact on the business. Each Issuer has developed robust operating procedures to manage storm related supply interruptions and has, through independent review, achieved benchmark performance in previous incidents. However, no assurance can be given that satisfactory performance can be delivered in the future.

Pensions

Employees and former employees of the Issuers have pension entitlements from the Central Networks and Western Power Distribution Groups of the Electricity Supply Pension Scheme (the **WPD ESPS Schemes**, further details of which are set out in "*Description of the Issuers: Pensions – WPDE and WPDW and Pensions – WPD South West and WPD South Wales*") which are defined benefit pension schemes. Low interest rates, recent declines in financial markets and changes in demographic factors have produced actuarial deficits that have led to increased pension deficits and which required cash contributions in recent years. Any further adverse movements in interest rates, financial markets and demographic factors amongst others may lead to even higher pensions costs, cash contributions and scheme deficits in the future. As part of the electricity regulatory framework in the UK, Ofgem currently allows nearly all the costs of new benefit accrual in relation to distribution-related activities for both the WPD ESPS Schemes (which are closed to new members) and the Issuers' defined contribution scheme (the **Western Power Pension Scheme** or **WPPS**) to be charged to

customers. From 1 April 2015 cash contributions payable in respect of new benefit accrual in the WPD ESPS Schemes and the WPPS along with any cash contributions payable in respect of any incremental deficit arising from benefit accrual after 1 April 2010 will be benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient¹. In addition, Ofgem carries out reasonableness reviews of the WPD ESPS Schemes' valuation outcomes and their corresponding deficit repair payment schedules following successive triennial valuations. As a result, if Ofgem deem that certain pension deficit costs have not have been efficiently and/or reasonably incurred, they may further restrict the amount that can be recovered from customers in the future.

Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales

As required by Ofgem in its regulation of distribution network operators (**DNOs** and each a **DNO**), WPDE, WPDW, WPD South West and WPD South Wales are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. However, on a management and commercial level WPDE, WPDW, WPD South West and WPD South Wales are operated on a combined basis under the commercial brand "Western Power Distribution". As a result, any event which has an adverse impact on Western Power Distribution may affect the management and delivery of operations for WPDE, WPDW, WPD South West and WPD South Wales.

¹These are the figures available as at the date of this Prospectus.

Procurement Risk

In order to support its core business activities, it is necessary for each of the Issuers to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Although the Issuers routinely enter into long-term contracts to protect their commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuers. Whilst each Issuer receives protection from inflation through its price controls being linked to the retail price index, it will be exposed or benefit from any changes relative to inflation, either as a result of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Key management personnel and employees

Each Issuer's business depends upon the efforts and dedication of its senior management team. Competition for highly qualified personnel is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on each Issuer's business, financial condition and results of operations.

Each Issuer's future business success depends in part on its ability to continue to recruit, train, motivate and retain employees and on its ability to continue to employ creative employees and consultants. The loss of service of any key personnel, or an inability to attract and retain qualified employees and consultants, could have a material adverse impact on each Issuer's business, financial condition and results of operations.

Each Issuer's workforce is covered by collective bargaining agreements, which impacts its labour costs. The current collective bargaining agreements are renewed on a rolling basis and each Issuer cannot ensure that the collective bargaining agreements will continue without required amendments or that it will reach new agreements with the unions on satisfactory terms if this event occurs. Furthermore, work stoppages, strikes or

similar industrial actions could adversely impact each Issuer's business, financial position and results of operations.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Notes may not be a suitable investment for all investors

Each potential investor in any Note must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the structure of the Notes

Early redemption by a Relevant Issuer at its option

A Relevant Issuer may, in the limited circumstances set out in Condition 6 (*Redemption, Purchase and Options*) and subject to the provisions as to minimum redemption price there set out, redeem the Notes prior to their stated maturity date. This early redemption feature may limit the market value of the Notes. The market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Notes may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Index Linked Interest Notes and Index Linked Redemption Notes

A Relevant Issuer may issue Notes with principal and/or interest determined by reference to the UK Retail Price Index (**RPI**). RPI may go down as well as up. Information on the RPI can be found at www.statistics.gov.uk.

Where the amount of interest payable on a Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period will reduce the amount of interest payable in respect of such Notes. In a deflationary environment, the annual interest received may be lower than the rate of interest specified in the applicable Final Terms.

Where the amount payable upon redemption of any Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period may reduce the amount to be repaid upon redemption of such Notes to less than the nominal amount of such Notes, unless the applicable Final Terms specify a minimum redemption amount which is equal to or higher than the nominal amount of such Notes.

The historical experience of RPI should not be viewed as an indication of the future performance of RPI during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to RPI and the suitability of such Notes in light of its particular circumstances.

There are particular risks associated with an investment in Index Linked Interest Notes and Index Linked Redemption Notes (**Indexed Notes**). In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Relevant Issuer's ability to convert the interest rate will affect the secondary market in, and the market value of, such Notes since the Relevant Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Relevant Issuer. If the Relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing market rates.

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification, waiver or authorisation of any breach, or proposed breach, of any of the provisions of the Notes or the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Relevant Issuer, in the circumstances described in Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) (provided that, in each case, it is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders).

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Minimum Denominations

In relation to any issue of Notes which have denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system would not be able to sell such holding without first purchasing a principal amount of Notes at or in excess of the minimum specified denomination such that its holding amounts to a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of minimum specified denominations such that its holding amounts to a specified denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

Eligibility of the Notes for Eurosystem Monetary Policy

Those Notes issued in NGN form or to be held under the NSS are intended to be held in a manner which will allow Eurosystem eligibility. This means that such Notes are upon issue deposited with one of the international central securities depositories as common safekeeper and does not necessarily mean that such Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem (**Eurosystem Eligible Collateral**) either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the ECB from time to time. The Issuers do not give any representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue, or at any or all times during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

The Relevant Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Relevant Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- a) the market price of such Notes may be volatile;
- b) they may receive no interest;
- c) payment of principal or interest may occur at a different time or in a different currency than expected;
- d) they may lose all or a substantial portion of their principal;
- e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases

the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Risks related to the market generally

Set out below is a brief description of certain material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Notes.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Relevant Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in those Notes

The ratings assigned to the Notes may not reflect the potential impact of all risks that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could affect the trading price for the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an

EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

As the Global Notes (or Global Certificates, as applicable) are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Relevant Issuer

The Notes will be represented by the Global Notes (or Global Certificates, as applicable) and, except in certain limited circumstances described in the permanent Global Note, investors will not be entitled to receive definitive Notes. The Global Notes (or Global Certificates, as applicable) will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes (or Global Certificates, as applicable). While the Notes are represented by the Global Notes (or Global Certificates, as applicable), investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Relevant Issuer will discharge its payment obligations under the Notes by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note (or Global Certificate, as applicable) must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes (or Global Certificates, as applicable).

Holders of beneficial interests in the Global Notes (or Global Certificates, as applicable) will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

SUPPLEMENTARY PROSPECTUSES

Following the publication of this Prospectus, a supplementary prospectus may be prepared by the Issuers and approved by the UK Listing Authority, which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplementary prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

The Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplementary prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the FCA shall be incorporated in, and form part of, this Prospectus:

- (a) The independent auditors annual report and financial statements set out in the annual report and financial statements of WPDE for the year ended 31 March 2015 (the **WPDE 2015 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2015 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2015 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (b) The directors' report, the independent auditors annual report and financial statements set out at pages 23 to 34 of the annual report and financial statements of WPDE for the year ended 31 March 2016 (the **WPDE 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2016 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (c) The independent auditors annual report and financial statements set out in the annual report and financial statements of WPDW for the year ended 31 March 2015 (the **WPDW 2015 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2015 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2015 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (d) The directors' report, the independent auditors annual report and financial statements set out at pages 24 to 35 of the annual report and financial statements of WPDW for the year ended 31 March 2016 (the **WPDW 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2016 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (e) The independent auditors annual report and financial statements set out in the annual report and financial statements of WPD South West for the year ended 31 March 2015 (the **WPD South West 2015 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2015 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2015 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (f) The directors' report, the independent auditors annual report and financial statements set out at pages 23 to 34 of the annual report and financial statements of WPD South West for the year ended 31 March 2016 (the **WPD South West 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2016 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (g) The independent auditors annual report and financial statements set out in the annual report and financial statements of WPD South Wales for the year ended 31 March 2015 (the **WPD South Wales 2015 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2015 Annual Report may be disregarded as irrelevant for the purposes of investors and

the WPD South Wales 2015 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;

- (h) The directors' report, the independent auditors annual report and financial statements set out at pages 23 to 34 of the annual report and financial statements of WPD South Wales for the year ended 31 March 2016 (the **WPD South Wales 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South Wales 2016 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;
- (i) The Terms and Conditions set out on pages 39 to 73 of the prospectus dated 27 April 2011 and issued by WPDE and WPDW;
- (j) The Terms and Conditions set out on pages 52 to 86 of the prospectus dated 10 September 2013 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales; and
- (k) The Terms and Conditions set out on pages 49 to 83 of the prospectus dated 14 April 2015 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales.

If the documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Prospectus for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

Copies of the documents incorporated by reference in this Prospectus may be viewed electronically and free of charge at www.westernpower.co.uk and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the Issuers, as incorporated by reference into this Prospectus in respect of the financial year ended 31 March 2015 and the financial year ended 31 March 2016, has been prepared in accordance with accounting principles generally accepted in the United Kingdom and the International Financial Reporting Standards (IFRS) adopted by the EU.

FORM OF THE NOTES

1 Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS respectively (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a Common Depository or if the Global Certificate is not held under the NSS, registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (**Alternative Clearing System**) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Whilst any Note is represented by a temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary Global Note if the temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent (**Certification**).

In respect of each Tranche initially represented by a temporary Global Note, on and after the date (the **Exchange Date**) which is 40 days after such temporary Global Note is issued, interests in such temporary Global Note will be exchangeable (free of charge) upon a request as described therein for either (i) interests in a permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Notes. The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the temporary Global Note for an interest in a permanent Global Note or for definitive Notes is improperly withheld or refused.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

3.3 Exchange for Definitive Notes

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If temporary Global Notes are exchangeable for Definitive Notes upon notice, then such Definitive Notes may only be issued to be held in clearing systems if in denominations equal to €100,000 (or equal to £100,000/\$200,000, as applicable) and integral multiples thereof.

3.4 Global Certificates

If the Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst

they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Relevant Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.4(i) or 3.4(ii) above, the registered holder has given the Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, **Definitive Notes** means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payment

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused

by or on behalf of the Issuer. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made in relation to such nominal amount of the temporary Global Note with respect to which there has been Certification dated no earlier than such due date for payment.

All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent provided for in the Conditions. If the Global Note is in CGN form, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 9(e)(vii) (*Appointment of Agents*) and Condition 10(e) (*Payment by another Paying Agent*) will apply to the Definitive Notes only.

If the Global Note is in NGN form, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. For the purpose of any payments made in respect of a Global Note, "in the relevant place of presentation" shall be disregarded in the definition of "business day" set out in Condition 9(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Certificate. Such payments will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

4.3 Meetings

The holder of a Global Note or of the Notes represented by a Global Certificate or single Certificate shall (so long as at least the required proportion of the aggregate principal amount of the outstanding Notes is represented by such holder) be treated as being two voters for the purposes of forming a quorum. The holder of a Global Note or of the Notes represented by a Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

4.4 Cancellation

On cancellation of any Note represented by a permanent Global Note (other than upon its redemption), the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant clearing systems and, upon any such entry being made, the nominal amount of the Notes

recorded in the records of the relevant clearing systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes shall, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the Issuer giving notice to the Issuing and Paying Agent, the Noteholders and the relevant clearing systems (or procuring that such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the case of a partial exercise of an option, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced accordingly.

4.7 Noteholder's Option

Any option of the Noteholders provided for in the Conditions of any Notes may, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the holder of such permanent Global Note or Global Certificate by giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

4.8 Trustee's Powers

So long as any Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, in considering the interests of Noteholders the Note Trustee may consider the interests (either individual or by category) of its accountholders or participants with entitlements to any such Note as if such accountholders or participants were the holder(s) thereof.

4.9 Notices

Notices required to be given in respect of the Notes represented by a Global Note (or Global Certificate, as applicable) may be given by their being delivered (so long as such Global Note or Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or an alternative clearing system)

to Euroclear, Clearstream, Luxembourg and/or such alternative clearing system, as the case may be, or otherwise to the holder of the Global Note (or Global Certificate, as applicable), rather than by publication as required by the Conditions.

FORM OF FINAL TERMS

[Date]

[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/ [Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000
Euro Medium Term Note Programme

Part A Contractual Terms

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 9 September 2016 [and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at www.westernpower.co.uk] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the prospectus dated [●], which is incorporated by reference into the Prospectus dated 9 September 2016. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/BC), as amended (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated 9 September 2016 [and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Prospectus. The Prospectuses [and the supplement[s]] are available for viewing [at [*website of relevant Issuer*]] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

- 1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]
- 2 (i) Series Number: [●]
-

- (ii) Tranche Number: [●]
- (iii) Date on which the Notes will be consolidated and form a single Series [The Notes will be consolidated and form a single Series with consolidated and form a single Series [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 25 below[, which is expected to occur on or about [●]]][Not Applicable]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]
- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
- (ii) Calculation Amount: (Applicable to [●] Notes in definitive form)
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●] [Issue Date] [Not Applicable]
- 8 Maturity Date: [●]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[(further particulars specified below)]
- 10 Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*
- 11 Change of Interest Basis or Redemption/ [●] [Not Applicable]
Payment Basis:

12 Put/Call Options: [Investor Put]
 [Restructuring Put Option]
 [Issuer Call]
 [(further particulars specified in paragraph[s]
 [20]/[21]/[22] below)]
 [Not Applicable]

13 [Date approval by Committee of the Board of [●]
 Directors for issuance of Notes obtained:]

Provisions Relating to Interest (if any) Payable

14 **Fixed Rate Note Provisions** [Applicable/Not Applicable]

(i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-
 annually/ quarterly/other (specify)] in arrear]

(ii) Interest Payment Date(s): [●] in each year up to and including the Maturity
 Date/[●]

(iii) Fixed Coupon Amount[(s)]: (Applicable to [●] per Calculation Amount
 Notes in definitive form)

(iv) Broken Amount(s): (Applicable to Notes in [[●] per Calculation Amount, payable on the Interest
 definitive form) Payment Date falling on [●]/Not Applicable]

(v) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (Sterling)]
 [Actual/360]
 [30/360] / [360/360] / [Bond Basis]
 [30E/360] / [Eurobond Basis]
 [Actual/Actual ICMA]
 [30E/360 (ISDA)]

(vi) Determination Date(s): [●] in each year

15 **Floating Rate Note Provisions** [Applicable/Not Applicable]

(i) Specified Period(s) [●]

(ii) Specified Interest Payment Dates: [●] in each year[, subject to adjustment in accordance
 with the Business Day Convention set out in paragraph
 (iv) below]

(iii) First Interest Payment Date [●]

(iv) Business Day Convention: [Floating Rate Convention/Following Business Day
 Convention/Modified Following Business Day
 Convention/Preceding Business Day Convention]

(v) Additional Business Centre(s): [●]

(vi) Manner in which the Rate of Interest and [Screen Rate Determination/ISDA Determination] Interest Amount is to be determined:

- (vii) Party responsible for calculating the Rate of Interest [●]
and Interest Amount (if not the Agent):
- (viii) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [●] month [LIBOR/EURIBOR]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
 - Relevant Time: [●]
- (ix) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
- (x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

16 Zero Coupon Note Provisions

- [Applicable/Not Applicable]
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption [Condition 6(b) (Early Redemption:) applies]
Amounts and late payment: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]

[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

17 Index Linked Interest Note Provisions	[Applicable/Not Applicable]
(i) Rate of Interest:	[Fixed, calculated in accordance with paragraph 15 above][Floating, calculated in accordance with paragraph 16 above]
(ii) Minimum Indexation Factor:	[Not Applicable][●]
(iii) Maximum Indexation Factor:	[Not Applicable][●]
(iv) Base Index Figure:	[●]
(v) Limited Indexation Month(s):	[●]/[Not Applicable]
(vi) Reference Gilt:	[●] per cent. Index-Linked Treasury Stock due [●]
(vii) Index Figure applicable	[3][8] months lag
18 Ratings Downgrade Rate Adjustment	[Applicable/Not Applicable]
Provisions Relating to Redemption	
19 Index Linked Redemption Provisions	[Applicable/Not Applicable]
(i) Minimum Indexation Factor:	[Not Applicable][●]
(ii) Maximum Indexation Factor:	[Not Applicable][●]
(iii) Base Index Figure:	[●]
(iv) Reference Gilt:	[●] per cent. Index-Linked Treasury Stock due [●]
(v) Index Figure applicable	[3][8] months lag
(vi) Redeemable in part:	[Applicable/Not Applicable]
(1) Minimum Redemption Amount:	[●]
(2) Maximum Redemption Amount:	[●]
20 Issuer Call	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s)	[[●] per Calculation Amount]
(iii) Redeemable in part:	[Applicable/Not Applicable]
(1) Minimum Redemption Amount:	[●]
(2) Maximum Redemption Amount:	[●]
21 Investor Put	[Applicable (Condition [6(f) (<i>Redemption at the Option of Noteholders</i>) applies])/Not Applicable]

(i) Optional Redemption Date(s):

[[●]]

(ii) Notice Period:

[●]/[Refer to Condition 6(f) (*Redemption at the Option of Noteholders*)]

(iii) Optional Redemption Amount(s):

[[●] per Calculation Amount]

22 **[Restructuring Put Option**

[Applicable [6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) applies]/Not Applicable]

(i) Optional Redemption Amount(s): [[●] per Calculation Amount]

23 Final Redemption Amount: [[●] per Calculation Amount]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

24 Early Redemption Amount payable on redemption for taxation reasons or on event of default [[●] per Calculation Amount]

(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)

General Provisions Applicable to the Notes

25 Form of Notes: [Bearer/Registered]

(i) if issued in Bearer form: [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

(ii) if issued in registered form: [Global Certificate registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [●] days' notice in the circumstances specified in the Global Certificate]

New Global Note/NSS: [Yes] [No]

26 Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[●]]

27 Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

[Western Power Distribution (East Midlands) plc]

[Western Power Distribution (West Midlands) plc]

[Western Power Distribution (South West) plc]

[Western Power Distribution (South Wales) plc]

By:

Part A
Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [●].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from [●].]

[Not Applicable]/[●]

(ii) Estimate of total expenses related to [●] admission to trading:

2 Ratings

Ratings: The Notes to be issued [have been] [are expected to be] rated:

[●] by [●]

[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

(i) [Reasons for the offer [●]

(ii) Estimated net proceeds: [●]

(iii) Estimated total expenses: [●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield: [●]

6 Operational Information

(i) ISIN Code: [●]

(ii) Common Code: [●]

- (iii) Any clearing system(s) other than Euroclear [Not Applicable/[●]
Bank SA/NV and Clearstream Banking S.A.
and the relevant identification number(s):
Delivery [against/free of] payment
 - (iv) Delivery:
 - (v) Names and addresses of additional Paying [●]
Agent(s) (if any):
-

- (vi) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (ICSD) as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the ECB) being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7 Distribution

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names and addresses of Managers): [Not Applicable/give names, addresses]
(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)
- (iii) Date of Dealer Agreement: []
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/give name]
- (v) If non-syndicated, name and address of relevant Dealer: [Not Applicable/give name and address]

(vi) U.S. Selling Restrictions:

[Reg. S Compliance Category [1/2/3]; ; TEFRA D/TEFRA C/TEFRA not applicable]

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[Date]

**[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/ [Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]
(the “Issuer”)**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £3,000,000,000
Euro Medium Term Note Programme**

Part A Contractual Terms

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Prospectus dated [●] [as supplemented by the supplement[s] dated [date[s]]] (the **Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus may be obtained from [address].

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus [dated [original date] which are incorporated by reference in the Prospectus].

The Notes offered pursuant to this Pricing Supplement are offered pursuant to an exemption to Prospectus Directive (Directive 2003/71/BC), as amended. The UK Listing Authority has neither approved nor reviewed information contained in the Prospectus or this Pricing Supplement relating to the Notes offered.

- 1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]
- 2 (i) Series Number: [●]
- (i) Tranche Number: [●]
- (ii) Date on which the Notes will [The Notes will be consolidated and form a single Series be consolidated and form a with [●] on [the Issue Date/exchange of the Temporary single Series Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below[, which is expected to occur on or about [●]]][Not Applicable]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]

- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
- (ii) Calculation Amount: [●]
(Applicable to Notes in definitive form)
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●] [Issue Date] [Not Applicable]
- 8 Maturity Date: [●]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR/[●]] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[(further particulars specified below)]
- 10 Redemption Basis: [Redemption at par]

[Index Linked Redemption]

[●]
- 11 Change of Interest Basis or Redemption/ Payment Basis: [●] [Not Applicable]
- 12 Put/Call Options: [Investor Put]

[Restructuring Put Option]

[Issuer Call]

[(further particulars specified below)]
- 13 Status of the Notes: Senior
- 14 [Date approval by [●] Committee of the Board of Directors for issuance of Notes obtained:]

Provisions Relating to Interest (if any) Payable

15 Fixed Rate Note Provisions [Applicable/Not Applicable]

- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/
quarterly/other (specify)] in arrear]
 - (ii) Interest Payment [●] in each year up to and including the Maturity Date/[●]
Date(s):
 - (iii) Fixed Coupon [●] per Calculation Amount
Amount[(s)]:
(Applicable to
Notes in
definitive form)
 - (iv) Broken Amount(s): [[●] per Calculation Amount, payable on the Interest Payment Date
(Applicable to falling on [●]/Not Applicable]
Notes in
definitive form)
-

- (v) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (Sterling)]
 [Actual/360]
 [30/360] / [360/360] / [Bond Basis]
 [30E/360] / [Eurobond Basis]
 [Actual/Actual ICMA]
 [30E/360 (ISDA)]
- (vi) Determination Date(s): [●] in each year
- 16 Floating Rate Note Provisions** [Applicable/Not Applicable]
- (i) Specified Period(s) [●]
- (ii) Specified Interest Payment Dates: [●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iv) below]
- (iii) First Interest Payment Date [●]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (v) Additional Business Centre(s): [●]
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (viii) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [●] month [LIBOR/EURIBOR/[●]]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
 - Relevant Time: [●]
- (ix) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]

-

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

- (x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
-

[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

17 Zero Coupon Note Provisions [Applicable/Not Applicable]

- (i) Accrual Yield: [●] per cent. Per annum
- (ii) Reference Price: [●]
- (iii) Any other formulas/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes [●]
- (iv) Day Count Fraction in relation to Early Redemption Amounts: [Condition 6(b) (Early Redemption:) applies] [Actual/Actual (ISDA)] / [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] / [Eurobond Basis] [Actual/Actual ICMA] [30E/360 (ISDA)]

18 Index Linked Interest Note Provisions [Applicable/Not Applicable]

- (i) Index/Formula: UK Retail Price Index
- (ii) Rate of Interest: [Fixed, calculated in accordance with paragraph 15 above][Floating, calculated in accordance with paragraph 16 above]
- (iii) Minimum Indexation Factor: [Not Applicable][●]
- (iv) Maximum Indexation Factor: [Not Applicable][●]
- (v) Base Index Figure: [●]
- (vi) Limited Indexation Month(s): [●]/[Not Applicable]
- (vii) Reference Gilt: [●] per cent. Index-Linked Treasury Stock due [●]
- (viii) Index Figure applicable [3][8] months lag

19 Ratings Downgrade Rate Adjustment [Applicable/Not Applicable]

Provisions Relating to Redemption

20 Index Linked Redemption Provisions [Applicable/Not Applicable]

- (i) Index/Formula: UK Retail Price Index
- (ii) Minimum Indexation Factor: [Not Applicable][●]

- (iii) Maximum Indexation Factor: [Not Applicable][●]
 - (iv) Base Index Figure: [●]
 - (v) Reference Gilt: [●] per cent. Index-Linked Treasury Stock due [●]
 - (vi) Index Figure applicable [3][8] months lag
 - (vii) Redeemable in part: [Applicable/Not Applicable]
 - (1) Minimum Redemption [●]
Amount:
 - (2) Maximum Redemption [●]
Amount:
-

- 21 **Issuer Call** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s): [[●] per Calculation Amount]
- (iii) Redeemable in part: [Applicable/Not Applicable]
- (iv) Minimum Redemption Amount: [●]
- (v) Maximum Redemption Amount: [●]
- 22 **Investor Put** [Applicable (Condition [6(f) (*Redemption at the Option of Noteholders*)]applies)/Not Applicable]
- (i) Optional Redemption Date(s): [[●]
- (ii) Notice Period: [●]/[Refer to Condition 6(f) (*Redemption at the Option of Noteholders*)]
- (iii) Optional Redemption Amount(s): [[●] per Calculation Amount]
- 23 **[Restructuring Put Option]** [Applicable [6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) applies]/Not Applicable]
- (i) Optional Redemption Date(s): [On the Put Date (as specified in the relevant Put Event Notice) (where Condition (6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*)))]
- (ii) Notice Period: [●] (in accordance with Condition 18 (*Notices*))
- (iii) Optional Redemption Amount(s): [[●] per Calculation Amount]
- 24 Final Redemption Amount: [[●] per Calculation Amount]
- 25 Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required): [[●] per Calculation Amount]

General Provisions Applicable to the Notes

- 26 Form of Notes: [Bearer/Registered]
- (i) if issued in Bearer form: [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

(ii) if issued in registered form: [Global Certificate registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [●] days' notice in the circumstances specified in the Global Certificate]

New Global Note/NSS: [Yes] [No]

- 27 Additional Financial Centre(s) or other [Not Applicable/[●]]
special provisions relating to
payment dates:
- 28 Talons for future Coupons to be [Yes, as the Notes have more than 27 coupon payments, Talons
attached to Definitive Notes: may be required if, on exchange into definitive form, more than 27
coupon payments are still to be made]/[No]
- 29 Other terms or special conditions: [Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

[Western Power Distribution (East Midlands) plc]

[Western Power Distribution (West Midlands) plc]

[Western Power Distribution (South West) plc]

[Western Power Distribution (South Wales) plc]

By:

Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading: [Not Applicable]/[●]

(ii) Estimate of total expenses related to [●]
admission to trading:

2 Ratings

Ratings: The Notes to be issued [have been] [are expected to be] rated:

[●] by [●]

[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

[Reasons for the offer

[●]

Estimated net proceeds:

[●]

Estimated total expenses:

[●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield:

[●]

6 [Performance of Index and Other Information Concerning the Underlying (Indexed Notes only)]

(i) Name of underlying index: U.K. Retail Price Index (RPI) (all items) published by the Office of National Statistics

(ii) Information about the Index, its volatility and past and future performance can be obtained from: Information on RPI can be found at www.statistics.gov.uk

7 Operational Information

(i) ISIN Code: [●]

(ii) Common Code: [●]

(iii) Any clearing system(s) other than Euroclear [Not Applicable]/[●]
Bank SA/NV and Clearstream Banking S.A.
and the relevant identification number(s):

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying [●]
Agent(s) (if any):

- (vi) Intended to be held in a manner which would allow [Yes] [No]
Eurosystem eligibility:

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS.] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]

[Note that whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8 Distribution

- | | |
|---|--|
| (i) Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) If syndicated, names of Managers | [Not Applicable/[●]] |
| (iii) Date of Subscription Agreement | [Not Applicable/[●]] |
| (iv) Stabilisation Manager(s) (if any) | [Not Applicable/[●]] |
| (v) If non-syndicated, name of relevant Dealer: | [●] |
| (vi) U.S. Selling Restrictions | [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable] |

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (as defined below) are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated on 9 September 2016 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales**) and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

Notes means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

2. No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise

Notice (as defined in Condition 6(f) (*Redemption at the Option of Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d) (*Delivery of New Certificates*), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes and the Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) direct, general, unconditional and unsecured obligations of the Issuers and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuers under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuers present and future.

4. Negative Pledge and Restriction on Distribution of Dividends

- (a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer will ensure that no Relevant Indebtedness (as defined below) of the Relevant Issuer and no guarantee by the Relevant Issuer of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Relevant Issuer unless the Relevant Issuer, before or at the same time as the creation of the Security Interest, takes any and all action necessary to ensure that:
 - (i) all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Note Trustee; or

- (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed either (A) as the Note Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Restriction on distribution of dividends:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer shall not at any time declare or make a distribution (as defined in Section 1000 of the Corporation Tax Act 2010) or grant a loan or any other credit facility to any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Relevant Issuer, has been provided to the Note Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Note Trustee without further enquiry or evidence and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties whether or not addressed to each such party.
- (c) **Definitions:** In this Condition:

borrowed money means (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

Net Debt at any time, means the aggregate amount of all indebtedness for borrowed money of the Relevant Issuer at such time less the aggregate of:

- (i) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;
- (ii) cash in hand;
- (iii) the lower of book and market value (calculated, where relevant, by reference to their bid price) of gilts issued by the United Kingdom Government; and
- (iv) subordinated intra-group items, loans from Affiliates (as defined in Condition 7 below) and shareholder loans,

in each case beneficially owned by the Relevant Issuer and in each case so that no amount shall be included or excluded more than once.

Regulatory Asset Base means in respect of any year, the regulatory asset base of the Relevant Issuer most recently published and as last determined and notified to the Relevant Issuer in respect of such year by the Great Britain Office of the Gas and Electricity Markets (**Ofgem**) or any successor of Ofgem (interpolated as necessary and adjusted for additions to the regulatory asset base of the Relevant Issuer and adjusted as appropriate for out-term inflation/regulatory depreciation in respect of the Relevant Issuer).

Relevant Indebtedness means:

- (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market;
- (ii) monies borrowed or raised from, or any acceptance credit opened by, a bank, building society or other financial institution; and
- (iii) any leasing or hire purchase agreement which would be treated as a finance lease in the accounts of the relevant person.

Any reference to an obligation being “guaranteed” shall include a reference to an indemnity being given in respect of that obligation.

5. Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).
- (b) **Interest on Floating Rate Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*). Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business

Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the relevant Final Terms
- (y) the Designated Maturity is a period specified in the relevant Final Terms and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity**, **Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such

quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Final Terms.

- (y) if the Relevant Screen Page is not available, or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Relevant Issuer suitable for

such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be zero coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Early Redemption*:)).
- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).
- (e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**
- (i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countries of such currency.
- (f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an

Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each denomination of the Notes for the relevant Interest Accrual Period, Interest Period or Interest Payment Date calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation and/or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period, Interest Period or Interest Payment Date and, if required, the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Relevant Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (h) **Linear Interpolation:** Where “Linear Interpolation” is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however*

that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (i) **Determination or Calculation by Note Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, or take any action that it is required to do pursuant to these Conditions, the Calculation Agent shall forthwith notify the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent and the Note Trustee (whether or not it receives such notice) shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**) and a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in each (if any) Business Centre.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **Actual/365 (Fixed)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if **Actual/365 (Sterling)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Period Date falling in a leap year, 366
- (iv) if **Actual/360** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360

- (v) if **30/360**, **360/360** or **Bond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30

- (vi) if **30E/360** or **Eurobond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₂ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

- (viii) if **Actual/Actual-ICMA** is specified in the Final Terms,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date and

Determination Date means the date(s) specified as such in the Final Terms or, if none is so specified, the Interest Payment Date(s)

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

Interest Amount means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

Interest Commencement Date means the Issue Date or such other date as may be specified in the Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

Interest Period means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

Interest Period Date means each Interest Payment Date unless otherwise specified in the Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc..

Rate of Interest means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

Reference Rate means the rate specified as such in the Final Terms (being either LIBOR or EURIBOR).

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms.

Specified Currency means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Relevant Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) **Adjustment to Rate of Interest:** If, in respect of a Tranche of Notes, **Ratings Downgrade Rate Adjustment** is specified in the relevant Final Terms as being applicable, the Rate of Interest specified in the Final Terms (the **Initial Rate of Interest**) and payable on the Notes will be subject to adjustment from time to time in the event of a Rating Change or Rating Changes, within the period from and including the Issue Date of such Tranche of Notes to and including the date falling 18 months from such Issue Date (the **Rating Change Period**, with the final date of such Rating Change Period being the **Rating Change Period End Date**), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

- (i) the lowest Rating then assigned to the Notes is A- or A3 or higher, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest;

- (ii) the lowest Rating then assigned to the Notes is BBB+ or Baa1, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.25 per cent. per annum;
- (iii) the lowest Rating then assigned to the Notes is BBB or Baa2, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.50 per cent. per annum; or
- (iv) the lowest Rating then assigned to the Notes is BBB- or Baa3 or lower, or if such Ratings are withdrawn by both of Moody's Investor Services Limited and Standard & Poor's Credit Market Services Europe Limited, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.75 per cent. per annum

in each case, the **Revised Rate of Interest**.

Following each Rating Change the Relevant Issuer will notify the Noteholders of the Revised Rate of Interest following such Rating Change in accordance with the provisions of Condition 18 (*Notices*) as soon as reasonably practicable after the occurrence of the Rating Change. If, in respect of an Interest Period (the **Relevant Interest Period**), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(l) during the Rating Change Period, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Initial Interest Rate plus 0.75 per cent. per annum. For the avoidance of doubt, the rate of interest payable on the Notes from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Notes shall be determined in accordance with the Ratings assigned to the Notes as of the Rating Change Period End Date.

Rating Agency means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors or Moody's Investors Service Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee; and

Rating Change means the public announcement by any Rating Agency assigning a credit rating to the Notes of a change in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied.

6. **Redemption, Purchase and Options**

(a) **Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the **Amortised Face Amount** of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c) (Zero Coupon Notes).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Note) or at any time (if this Note is neither a Floating Rate Note nor an Indexed Note), on

giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 18 (Notices) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (Early Redemption) above) (together with interest accrued to the date fixed for redemption), if (i) the Relevant Issuer satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Relevant Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c) (Redemption for Taxation Reasons), the Relevant Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Relevant Issuer stating that the obligation referred to in (i) above cannot be avoided by the Relevant Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

- (d) **Redemption for Indexation Reasons:** Upon the occurrence of any Index Event (as defined below), the Relevant Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Note Trustee and the holders of the Indexed Notes in accordance with Condition 18 (*Notices*), redeem all (but not some only) of the Indexed Notes of all Tranches on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(a) (*Application of the Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Indexed Notes may be redeemed in these circumstances unless all the other Tranches of Indexed Notes linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Relevant Issuer shall provide to the Note Trustee a certificate signed by two directors of the Relevant Issuer (a) stating that the Relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Relevant Issuer so to redeem have occurred and (b) confirming that the Relevant Issuer will have sufficient funds on such Interest Payment Date to effect such redemption. The Note Trustee shall be entitled to rely on such certificate without liability to any person.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

Index Event means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(b)(ii) (*Delay in publication of Index*) and the Note Trustee has been notified by the Issuing and Paying Agent or Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Relevant Issuer and such circumstances are continuing.

- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

- (f) **Redemption at the Option of Noteholders:** If Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) (specified in the Final Terms) at its Optional Redemption Amount (specified in the Final Terms) together with interest accrued up to (and including) the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

- (g) **Redemption at the Option of the Noteholders on a Restructuring Event**

- (i) If Restructuring Put Option is specified in the Final Terms (and for the avoidance of doubt, the Investor Put is also specified in the Final Terms), and:
- (a) if, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):

- (A) an independent financial adviser (as described below) shall have certified in writing to the Note Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or
- (B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Relevant Issuer at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(g)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Note Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) or the holder shall have given notice under Condition 6(f) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date..

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time, with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(g)(i)(b)(B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(f) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(f) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(f) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.
- (iv) For the purposes of these Conditions:
 - (a) **Distribution Services Area** means, in respect of a Relevant Issuer, the area specified as such in the distribution licence granted to it on 1 October 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant

Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).

- (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.
- (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.
- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal), or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.
- (f) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of a Relevant Issuer having an initial maturity of five years or more which is rated by a Rating Agency.
- (g) **Restructuring Event** means the occurrence of any one or more of the following events:
 - (A) (i) the Secretary of State for Business, Innovation and Skills (or any successor) giving the Relevant Issuer written notice of any revocation of its Distribution Licence; or
 - (ii) the Relevant Issuer agreeing in writing with the Secretary of State for Business, Innovation and Skills (or any successor) to any revocation or surrender of its Distribution Licence; or
 - (iii) any legislation (whether primary or subordinate) being enacted which terminates or revokes the Distribution Licence of the Relevant Issuer;

except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Relevant Issuer or a wholly-owned subsidiary of the Relevant Issuer where such subsidiary at the time of such grant either executes in favour of the Note Trustee an unconditional and irrevocable guarantee in respect of all Notes issued by the

Relevant Issuer in such form as the Note Trustee may approve or becomes the primary obligor under the Notes issued by the Relevant Issuer in accordance with Condition 13(c) (*Substitution*); or

- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which a Relevant Issuer is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Issuer have certified in good faith to the Note Trustee that the modified terms and conditions are not materially less favourable to the business of that Relevant Issuer;
 - (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 (as amended by the Utilities Act 2000) (as this may be amended from time to time) unless two directors of such Relevant Issuer have certified in good faith to the Note Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of that Relevant Issuer.
- (h) **Restructuring Period** means:
- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
 - (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Relevant Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and (cc) the date on which a Negative Certification shall have been given to the Note Trustee in respect of that Restructuring Event.
- (i) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*), does not announce or publicly confirm or inform the Relevant Issuer in writing at its request (which it shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade, was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
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The Relevant Issuer undertakes to contact the relevant Rating Agency immediately following that reduction, or where applicable the refusal to assign a rating of at least investment grade, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Relevant Issuer shall notify the Note Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

- (h) **Purchases:** The Relevant Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Relevant Issuer or its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Relevant Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Relevant Issuer in respect of any such Notes shall be discharged.

7. Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specifies that the Notes are Index Linked Interest Notes and/or Index Linked Redemption Notes.

(a) Application of the Index Ratio

Each payment of interest in respect of the Index Linked Interest Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

Each payment of principal in respect of the Index Linked Redemption Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

(b) Changes in Circumstances Affecting the Index

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “Index” and “Index Figure” in Condition 8 (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index

Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **relevant month**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Notes is due (the **date for payment**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as an Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty's Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser (and approved by the Note Trustee); or (1) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(b)(i) (*Change in base*)) before the date for payment.

(c) **Application of Changes**

Where the provisions of Condition 7(b)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(b)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Note is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(b)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(d) **Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) when any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Note Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Noteholders, the Note Trustee will give written notice of such occurrence to the Relevant Issuer, and the Relevant Issuer and the Note Trustee together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they

would have been had the Index not ceased to be published or the relevant fundamental change not been made.

- (ii) If the Relevant Issuer and the Note Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Relevant Issuer and the Note Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Note Trustee (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Relevant Issuer and the Note Trustee in connection with such appointment shall be borne by the Relevant Issuer.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Relevant Issuer and the Note Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Note Trustee and the Relevant Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Relevant Issuer, the other Secured Creditors, the Note Trustee and the Noteholders, and the Relevant Issuer shall give notice to the Noteholders in accordance with Condition 18 (*Notices*) of such amendments as promptly as practicable following such notification.

8. Definitions

In these Conditions:

Affiliate means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, **control** means control as defined in the Companies Act;

Base Index Figure means (subject to Condition 7(b)(i) (Change in base)) the base index figure as specified in the relevant Final Terms;

Calculation Date means any date when a payment of interest or, as the case may be, principal falls due;

Capital and Reserves means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Relevant Issuer; and
- (ii) the total of the capital, revaluation and revenue reserves of the Group (as defined below), including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to

outside shareholders in Subsidiary Undertakings (as defined below) and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 2006, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Relevant Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

consolidated means in relation to the financial statements and accounts of the Relevant Issuer and/or the Group, those statements and accounts as consolidated under International Financial Reporting Standards, provided that if such consolidated accounts are not prepared, it shall mean the non-consolidated financial statements and accounts of the Relevant Issuer prepared in accordance with generally accepted accounting principles in the United Kingdom.

Distribution Licence means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989, as amended from time to time.

Group means the Relevant Issuer and, if and to the extent it has any, its Subsidiary Undertakings and “member of the Group” shall be construed accordingly.

Index or **Index Figure** means, in relation to any relevant month (as defined in Condition 7(b)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(b)(i) (Change in base), the UK Retail Price Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “3 months lag” is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m3} + \frac{(\text{Day of Calculation Date} - 1)}{\text{Days in month of Calculation Date}} (\text{RPI}_{m2} - \text{RPI}_{m3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

IFA means the Index Figure applicable;

RPI_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “8 months lag” is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

9. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder,

any official interpretations thereof, or (without prejudice to Condition 10 (Taxation)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the Agency Agreement. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuers and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuers reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuers shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Indexed Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 11 (*Prescription*)).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or Indexed Notes, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.

- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as “**Additional Financial Centre(s)**” in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for

exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or

- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice

or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or

- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
- (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or
- (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

- (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
- (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,

provided that in the case of paragraph (ii) the Note Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

- (ix) **Definitions:** in this Condition:

Excluded Subsidiary means any Subsidiary (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) of the Relevant Issuer:

- (A) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (B) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (B) (II). of the definition of Non-recourse Indebtedness below; and
- (C) which has been designated as such by the Relevant Issuer by written notice to the Note Trustee, provided that the Relevant Issuer may give written notice to the Note Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

Non-recourse Indebtedness means any indebtedness for borrowed money:

- (A) which is incurred by an Excluded Subsidiary; or
- (B) in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - I. recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; and/or
 - II. recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over any such asset or assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse

to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

- III. recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

Principal Subsidiary at any time shall mean each Subsidiary of the Relevant Issuer (in each case not being an Excluded Subsidiary or any other Subsidiary of the Relevant Issuer, as the case may be, whose only indebtedness for borrowed money is Non-recourse Indebtedness):

- (A) whose (a) profits on ordinary activities before tax or (b) gross assets, in each case attributable to the Relevant Issuer represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries) and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors; or
- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Relevant Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (B), upon publication of its next audited financial statements (but without prejudice to the provisions of sub-paragraph (A) above) but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Relevant Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (A) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (B).

A certificate by two directors of the Relevant Issuer that, in their opinion, a Subsidiary of the Relevant Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Note Trustee without further enquiry or evidence and the Note Trustee will not be responsible or liable for any loss occasioned by acting on such a certificate and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties, whether or not addressed to each such party.

13. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders of one or more Series of Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the affected Series of Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing one more than 50 per cent. in nominal amount of the affected Series of Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the affected Series of Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

- (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
- (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;
- (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;
- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum;
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;
- (vi) to vary the currency or currencies of payment or denomination of the Notes;
- (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Relevant Issuer, whether or not those rights arise under the Trust Deed; or
- (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the affected Series of Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be

binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of affected Series of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of the Trust Deed:** The Note Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) if in the opinion of the Note Trustee the interests of the Noteholders will not be materially prejudiced thereby, to any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions, or determine that any Event of Default shall not be treated as such. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Note Trustee may agree, subject to the execution of a deed or undertaking supplemental to the Trust Deed in form and manner satisfactory to the Note Trustee and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Relevant Issuer's successor in business in place of the Relevant Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Note Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Relevant Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

(e) **Modifications**

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

14. Enforcement

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Events of Default*) where the Note Trustee has certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Relevant

Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Relevant Issuer unless the Note Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Note Trustee

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuers and any entity related to the Issuers without accounting for any profit.

The Note Trustee may rely without liability on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuers, the Note Trustee and the Noteholders.

16. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Relevant Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Relevant Issuer on demand the amount payable by the Relevant Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Relevant Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

17. Further Issues

The Relevant Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects save for the Issue Date, Interest Commencement Date and Issue Price) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such different terms as the Relevant Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further issues may be constituted by the Trust Deed or any deed supplemental to

it. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

18. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
 - (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (**Proceedings**) may be brought in such courts. The Issuers have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
-

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Relevant Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUERS

The four Issuers, WPDE, WPDW, WPD South West and WPD South Wales are the regulated monopoly distributors of electricity in the Midlands area of England, the South West of England and South Wales. All four companies are indirectly wholly owned subsidiaries of Western Power Distribution Limited, (registered number 09223384) (**WPD**, together with WPD Distribution Network Holdings Ltd (registered number 08857746), WPDE, WPDW, WPD South West and WPD South Wales, the **WPD Group**). The WPD Group is a wholly owned subsidiary of PPL WPD Ltd whose registered number is 09172857 and whose registered office is Avonbank, Feeder Road, Bristol, BS2 0TB. The ultimate parent of PPL WPD Limited is PPL Corporation (**PPL**), an energy and utility holding company based in Pennsylvania, USA. The WPD Group has been wholly-owned by PPL since 6 September 2002.

Each of the four Issuers is regulated by the Great Britain Office of Gas and Electricity Markets (**Ofgem**).

Key Strengths

The Issuers believe they have possession of key operational and credit strengths outlined below. The offer of the Notes presents an opportunity to invest in an investment grade regulated UK electricity distribution network business that benefits from:

- A stable, well established transparent regulatory regime;
- Strong and predictable operating cash flow;
- No volume risk;
- Inflation linked earnings and asset base;
- Positive cash flow generation before financing;
- Industry leading delivery of Ofgem output targets; and
- Accurate forecasting and efficient delivery of investment programmes.

Description of WPDE

History

WPDE is the regulated monopoly distributor of electricity in the East Midlands area of England. WPDE was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDE is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDE joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDE has no subsidiary companies.

WPDE was formerly known as Central Networks East plc and changed its name to Western Power Distribution (East Midlands) plc on 1 April 2011.

Description of Principal Activity

WPDE is one of the 14 regulated electricity distribution network operators (**DNO**) in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the East Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers within its regulated area.

Its network covers approximately 16,000 square kilometres, extending from the Lincolnshire coast to the outskirts of Coventry, and from Milton Keynes in the south to the Derbyshire Peak District in the north. As a result, it serves a diverse customer base including large urban areas such as Nottingham, Derby, Northampton and Leicester, as well as rural communities.

As at 31 March 2016, WPDE distributed electricity to over 2.6 million customers through approximately 72,000 kilometres of network.

Western Power Distribution (East Midlands) plc Distribution Service Area map



Description of WPDW

WPDW is the regulated monopoly distributor of electricity in the West Midlands area of England. WPDW was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDW is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDW joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDW has no subsidiary companies.

WPDW was formerly known as Central Networks West plc and changed its name to Western Power Distribution (West Midlands) plc on 1 April 2011.

Description of Principal Activity

WPDW is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the West Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 13,300 square kilometres, extending from the outskirts of Bristol in the South to Staffordshire in the North and from approximately the M6 motorway to the Welsh border. As a result, WPDW serves a diverse customer base including England's second largest city, Birmingham, as well as rural communities.

As at 31 March 2016, WPDW distributed electricity to almost 2.5 million customers through approximately 64,000 kilometres of network.

Western Power Distribution (West Midlands) plc Distribution Service Area map



Description of WPD South West

WPD South West is the regulated monopoly distributor of electricity in the south-western area of England. WPD South West was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South West is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is + 44-117-933-2000. WPD South West joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South West has no subsidiary companies.

WPD South West was formerly known as South Western Electricity plc and changed its name to Western Power Distribution (South West) plc on 31 July 2001.

Description of Principal Activity

WPD South West is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the South West area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 14,400 square kilometres, extending from Bristol and Bath in the northeast, southwest along the peninsula to Land's End and beyond to the Isles of Scilly. WPD South West serves a diverse customer base from the largest cities and towns in WPD South West's service area of Bath, Bristol, Exeter, Plymouth and Taunton to small rural communities.

As at 31 March 2016, WPD South West distributed electricity to almost 1.6 million customers through approximately 50,000 kilometres of network.

Western Power Distribution (South West) plc Distribution Service Area map



Description of WPD South Wales

WPD South Wales is the regulated monopoly distributor of electricity in South Wales. WPD South Wales was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South Wales is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is +44-117-933-2000. WPD South Wales joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South Wales has no subsidiary companies.

WPD South Wales was formerly known as South Wales Electricity plc and changed its name to Western Power Distribution (South Wales) plc on 31 July 2001.

Description of Principal Activity

WPD South Wales is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in South Wales and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

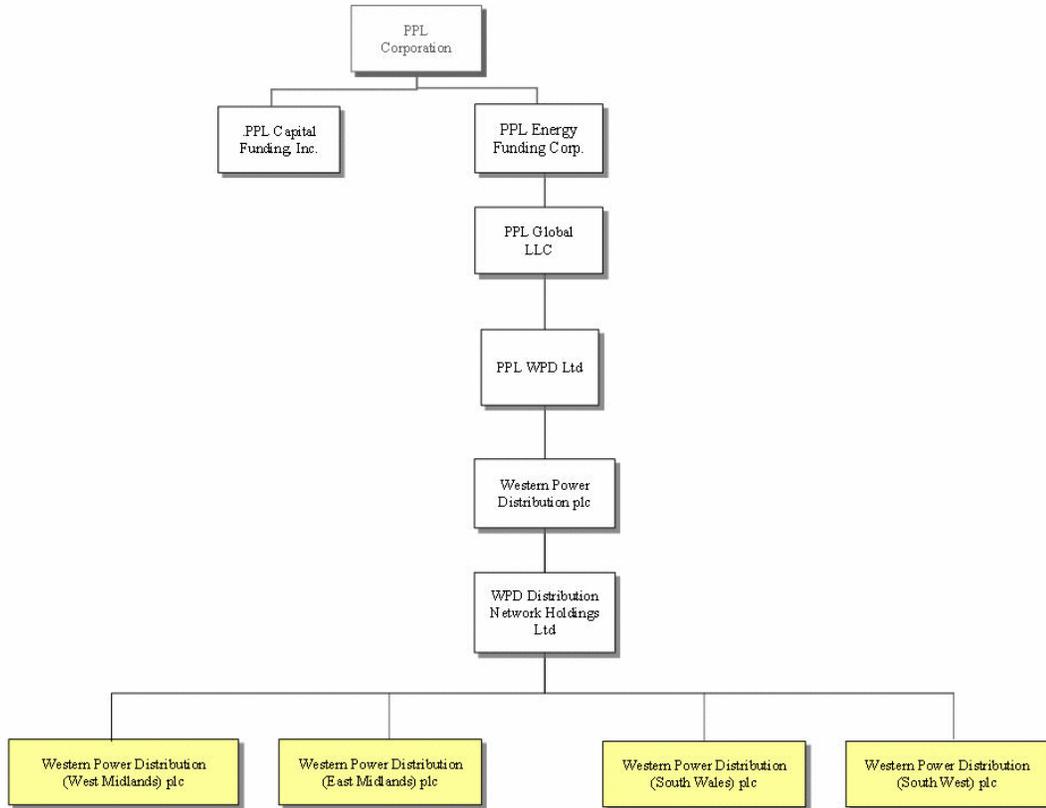
Its network covers approximately 11,800 square kilometres. The service area in Wales covers the south of the country. It covers an extremely diverse region including areas such as the Brecon Beacons National Park to the north, the Pembrokeshire Coast National Park in the West and city of Cardiff in the south. The largest cities and towns in WPD South Wales' service area are Cardiff, Swansea and Newport. Most of the population of South Wales is located in the coastal belt region between Newport and Llanelli, (to the east and west of Cardiff), or in the valleys region to the north of this coastal belt. The remainder of the area is sparsely populated.

As at 31 March 2016, WPD South Wales distributed electricity to over 1.1 million customers through approximately 35,000 kilometres of network.

Western Power Distribution (South Wales) plc Distribution Service Area map



WPD Summary Group Structure Chart



Description of PPL Corporation

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls nearly 8,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets and delivers electricity and natural gas to over 10 million customers in the United States and the United Kingdom.

Business Overview

The Western Power Distribution Business

WPDE, WPDW, WPD South West and WPD South Wales are all indirect subsidiaries of WPD which is an indirect subsidiary of PPL and operate together as a single commercial entity under the brand “Western Power Distribution”. “Western Power Distribution”, as used in this Prospectus, means the multiparty commercial operations of WPDE, WPDW, WPD South West and WPD South Wales.

As required by Ofgem in its regulation of DNOs, WPDE, WPDW, WPD South West and WPD South Wales, are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. As a result of this, all four entities are separately assessed by Ofgem and undergo a separate distribution price control review process (as further explained in the section entitled “*Regulation applying to the Issuers*”).

However, on a management and commercial level, WPDE, WPDW, WPD South West and WPD South Wales, are operated on a combined basis through shared divisional management (as further explained in the section entitled “*Description of the Western Power Distribution Business*”). According to publicly available information accessed through the Energy Networks Association website, Western Power Distribution is the second largest electricity network operator in the United Kingdom (by customer numbers) as at 31 March 2016, with more than 7.8 million customers.

As WPDE, WPDW, WPD South West and WPD South Wales are separate entities for legal and regulatory purposes they each produce accounts. The costs of shared services, employees and operations are allocated back to each entity (as appropriate) in order to produce such accounts.

As at 31 March 2016, WPDE and WPDW had a regulated asset value (RAV) of £2.13 billion and £2.14 billion respectively. In addition the WPD South West and WPD South Wales operations had a RAV of £1.35 billion and £0.93 billion respectively. In total Western Power Distribution have a total RAV of £6.55 billion making it the largest electricity network operator in the United Kingdom by RAV.

Potential investors are also referred to the section entitled “*Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales*” within the section entitled “*Risk Factors*” above.

Strategy

Monitoring the satisfaction of end users connected to the network with the quality of supply provided is a key element of the Western Power Distribution strategy. Each Western Power Distribution entity aims to meet or exceed all the performance criteria established by Ofgem. Network performance is measured by two key criteria:

- (a) *availability*: the number of customer minutes lost per connected customer (CML); and

(b) *security*: the number of supply interruptions (if greater than 3 minutes) recorded per 100 connected customers (CI).

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system security and availability. The IIS incentive scheme financially incentivises all licensees including WPDE, WPDW, WPD South West and WPD South Wales with respect to both key measures of supply delivered to customers. Ofgem also incentivises the quality of telephone response the customer receives when they contact the licensees, which is assessed by a customer survey carried out on a monthly basis.

For the year 2015/16, the reported adjusted minutes lost per customer and the adjusted interruptions per 100 customers for each of the four companies were:

	WPD South West		WPD South Wales		WPD East Midlands		WPD West Midlands	
	CI	CML	CI	CML	CI	CML	CI	CML
OFGEM IIS Target 2015/16	59.2	43.9	55.1	35.4	53.2	40.2	89.1	55.7
IIS Outturn 2015/16	51.4	37.5	47.4	26.3	42.6	21.5	65.4	32.2
% Out Performance	13.2%	14.6%	14.0%	25.7%	19.9%	46.2%	26.6%	42.2%

(Figures unaudited)

In addition to this in 2015/16, 85.1 per cent of customers off supply in the South West as a result of a High Voltage ("HV") fault were restored within one hour of a fault occurring, with the figure being 86.4% for South Wales, 89.4% for WPDE and 91.5% for WPDW.

The Energy Ombudsman has the role of complaint handling and customer representation for the electricity sector in the United Kingdom and replaced *energywatch* in October 2008.

Directors of WPDE, WPDW, WPD South West and WPD South Wales

All four entities are managed by a Board of Directors comprising the following individuals:

Name	Position	Principal non-Group activities
R A Symons	Chief Executive Officer	None
D C S Oosthuizen	Finance Director	None
I R Williams	Resources and External Affairs Director	None
P Swift	Operations Director	None
M E Fletcher	Sufficiently Independent Director*	None
C R Watts	Sufficiently Independent Director*	None
W H Spence	Director	Chairman, President and Chief Executive Officer, PPL Corporation

*As required by OFGEM.

The business address of each of the Directors is Avonbank, Feeder Road, Bristol BS2 0TB. No Director has any actual or potential conflict of interest between his duties to WPDE, WPDW, WPD South West and WPD South Wales and his private interests and/or other duties.

Regulation applying to the Issuers

Licences

The distribution licences held by WPDE, WPDW, WPD South West and WPD South Wales authorise the licensees to distribute electricity for the purpose of providing a supply in Great Britain with additional obligations under Section B of the distribution licence for any premises in the distribution services area specified in the distribution licence. The licence exists in perpetuity, and can only be revoked by Ofgem (giving no less than 25 years' notice) or by breach of licence. A failure of an Issuer to comply with its licence could lead to an enforcement order being issued by Ofgem. Ofgem has the power to levy fines of up to 10 per cent. of turnover for any breach. In certain circumstances, for example, insolvency, the distribution licence itself may be revoked. The licences provide for a distribution services area, equating to the former authorised area of the former public electricity suppliers in the East Midlands and West Midlands areas the South West of England and South Wales, respectively, in which the respective licensee has certain specific distribution services obligations.

Under the Electricity Act 1989 (as amended), an electricity distributor has a duty, except in certain circumstances, to make a connection between its distribution system and any premises within the designated area for the purpose of enabling electricity to be conveyed to or from the premises and to make a connection between its distribution system and any distribution system of another authorised distributor, for the purpose of enabling electricity to be conveyed to or from that other system.

Each DNO benefits from a regional monopoly and its operations are regulated by its distribution licence. Each DNO is subject to annual limits on its regulated revenues and the quality of supply it must provide, and is provided with financial incentives to minimise its costs and improve the service it provides to its customers.

Distribution Price Controls

Distribution price controls (each a **Distribution Price Control**) are intended to provide companies with sufficient revenues to allow them to finance their efficient operating costs and capital investment. In addition to setting revenues, the price controls also include targets for the overall quality of network performance based upon the average number and duration of supply outages experienced by customers. Companies can be either rewarded or penalised for exceeding or failing these targets.

The charges made for the use of the distribution network are regulated on the basis of annually profiled revenues adjusted for RPI. The RPI is a measure of inflation and in RIIO-ED1 prices are set using a forecast of RPI; subsequently reconciled 2 years later for the actual RPI observed.

It is then for DNOs to develop a charging regime in accordance with Ofgem's approved methodology in order to recover from suppliers an amount up to the allowed revenue. Historically, these tariffs have been a matter for each company individually but Ofgem has implemented licence conditions which compel distributors to work together and set tariffs based upon a common methodology.

The current distribution price control was agreed with Ofgem in May 2014 for the period from 1 April 2015 to 31 March 2023. This has resulted in a reduction in the price for the distribution of electricity in the first year of RIIO-ED1 (2015/16). The decreases, before taking into account inflation are 9.1 per cent. for WPDE, 9.4 per cent. for WPDW and respective decreases of 17.5 per cent. and 23.8 per cent. for South West and South Wales. For the remaining seven years of RIIO-ED1 the revenues increase annually. All of these annual movements will have RPI inflation applied to them.

DNOs must also meet the standards of performance, which are set by Ofgem to ensure an appropriate level of quality of supply (the **Guaranteed Standards of Performance**). If a company fails to provide the level of service specified, it must make a fixed payment to the end user affected.

The objective of RIIO-ED1 is to drive real benefits for consumers; providing companies with strong incentives to meet the challenges of delivering a sustainable energy sector at a lower cost.

Key features of the regulation of electricity distribution businesses in RIIO-ED1 and beyond, include:

- (a) a move to eight year price controls with mid-point reviews restricted to outputs and whether they remain appropriate;
- (b) The RIIO-ED1 price control includes an Annual Iteration Process. This allows base revenues to be updated during the price control for financial adjustments covering tax, pension deficit payments and the cost of debt allowed to be recovered in revenues, adjustments relating to actual and allowed total expenditure (Totex) and the Totex Incentive Mechanism and legacy price control adjustments from preceding price control periods. Under the Annual Iteration Process, the financial model used to calculate base revenue is re-run using a series of revised input values. This process calculates an incremental change to base revenue, the "MOD" term, which is advised by 30th November preceding each regulatory year.
- (c) more closely align regulatory and physical asset lives on new assets purchased after 2015. This resulted in a decision to extend the regulatory depreciation lives for new expenditure on assets installed after 1 April 2015 from 20 years to 45 years over the course of RIIO-ED1.
- (d) the delivery of 76 different outputs to customers (both qualitative and quantitative) across the areas of safety, reliability, environment, connections, customer satisfaction and social obligations.
- (e) the introduction of a proportionate treatment concept where the degree of scrutiny of licence holders' business plans for any forthcoming price control period is related to the quality of the business plan and records of previous performance, with the possibility of some companies achieving limited scrutiny and an early settlement decision (to be known as a "Fast Track" decision); and
- (f) more clarity around the cost of capital and capitalisation policies at the beginning of the review period as well as recognising the role of equity in financing network businesses, together with a move to a rolling cost of debt allowance based on trailing averages of corporate bond indices. The allowed cost of equity for each of the Issuers is 6.4 per cent. As fast tracked companies, the cost of debt for the Issuers is calculated from a 10 year rolling average of real rates that will be determined from the arithmetical average of the iBoxx A-rated and BBB-rated non-financial indices (of eligible bonds greater than 10 years) less the implied 10-year gilt inflation break evens published daily by the Bank of England. For the year 2016/17, the cost of debt for the Issuers is set at 2.38 per cent.

The WPD business plan, covering all four DNOs, can be found on the WPD website, www.westernpower.co.uk. The comprehensive plan provides details of the level of investment, the improvements in customer service, the financing requirements, the 76 outputs, etc. that will occur within the RIIO-ED1 period.

Customer Information

WPDE's network, which consists of approximately 51,000 kilometres of underground cables and 22,000 kilometres of overhead line (as at 31 March 2016), distributed 26.1 terawatt hours of electricity in the year ended 31 March 2016 to approximately 2.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 62 per cent. of revenues and 53 per cent. of units distributed (for the year ended 31 March 2016). WPDE has approximately 13,000 larger customers as of 31 March 2016 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 38 per cent. of revenues and 47 per cent. of units distributed (for the year ended 31 March 2016).

WPDW's network, which consists of approximately 40,000 kilometres of underground cables and 24,000 kilometres of overhead line (as at 31 March 2016), distributed 23.5 terawatt hours of electricity in the year ended 31 March 2016 to approximately 2.5 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 63 per cent. of revenues and 55 per cent. of units distributed (for the year ended 31 March 2016). WPDW has approximately 12,000 larger customers as of 31 March 2016 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 37 per cent. of revenues and 45 per cent. of units distributed (for the year ended 31 March 2016).

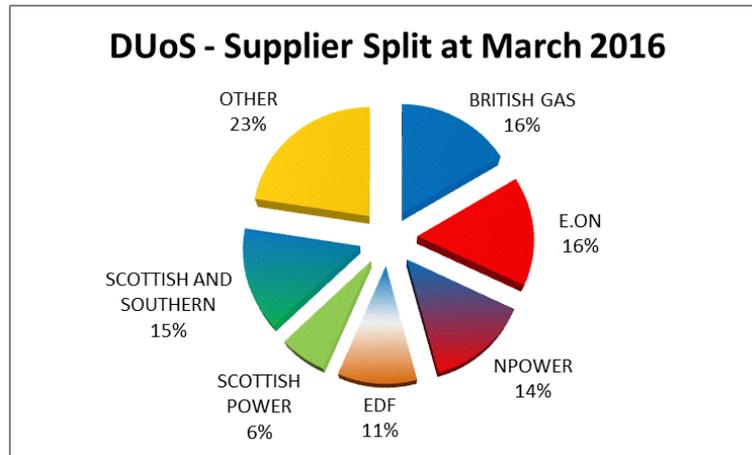
WPD South West's network, which consists of approximately 22,000 kilometres of underground cables and 28,000 kilometres of overhead line (as at 31 March 2016), distributed 13.5 terawatt hours of electricity in the year ended March 2016 to approximately 1.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 73 per cent. of revenues and 63 per cent. of units distributed (for the year ended 31 March 2016). WPD South West has approximately 6,700 larger customers as of 31 March 2016 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 27 per cent. of revenues and 37 per cent. of units distributed (for the year ended 31 March 2016).

WPD South Wales' network, which consists of approximately 18,000 kilometres of underground cables and 18,000 kilometres of overhead line (as at 31 March 2016), distributed 11.2 terawatt hours of electricity in the year ended 31 March 2016 to approximately 1.1 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 65 per cent. of revenues and only 47 per cent. of units distributed (for the year ended 31 March 2016). WPD South Wales has approximately 4,700 larger customers as of 31 March 2016 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 35 per cent. of revenues and 53 per cent. of units distributed (for the year ended 31 March 2016).

Transmission and Distribution Facilities

Electricity is transported across National Grid Electricity Transmission plc's transmission system at 400kV or 275kV to 14 Grid Supply Points (**GSPs**) connected to WPDE's distribution network and 16 GSPs connected to WPDW's network, and 11 GSPs connected to both the WPD South West and WPD South Wales networks, where it is transformed to 132kV and enters Western Power Distribution's distribution systems. 89 per cent. of all electricity that enters Western Power Distribution's system is received at these 52 GSPs (as at 31 March 2016). Within the last few years there has been a substantial increase in distributed generation within the WPD area, which accounts for the remaining 11 per cent. that is distributed by WPD.

Whilst Western Power Distribution supplies some 7.8 million connected customers, revenue is derived via some 73 electricity suppliers operating in Western Power Distribution's area with the following market shares as of March 2016:



Operation and control of Western Power Distribution's distribution systems are continuously monitored and coordinated from three control centres located on the outskirts of Birmingham for the West Midlands, near Nottingham for the East Midlands and on the outskirts of Cardiff for the South West and South Wales. Electricity is received by end users at various voltages depending upon their requirements.

Employee Relations

The WPD Group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the WPD Group's aims, objectives, performance and plans and their effect on them as employees through newsletters, regular team briefings and other meetings, as well as through the WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of roadshow presentations by the directors of the WPD Group each year ensure that all staff are aware of, and can contribute to, the WPD Group's corporate goals.

Pensions – WPDE and WPDW

Background

WPDW and WPDE (together the **Midlands Issuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement which currently represents the majority of the funding the Midlands Issuers will be required to make towards their pension arrangements is the Central Networks Group of the Electricity Supply Pension Scheme (the **Central Networks Group** and **ESPS** respectively). The Central Networks Group is closed to new members and new employees join the Issuers' Defined Contribution Scheme called the Western Power Pension Scheme (or **WPPS**).

The Central Networks Group is a sectionalised group of the ESPS which was established on 1 April 2011 in order to receive a transfer of the assets and liabilities of the current and former employees of the Midlands Issuers or certain of their subsidiaries who were members of the E.On Group of the ESPS. The second actuarial

valuation of the Central Networks Group, which determined future cash contributions payable, was completed as at 31 March 2013, and the third actuarial valuation as at 31 March 2016 is currently in progress.

Cash contributions – Central Networks Group

The deficit repair payments currently agreed in relation to the 2013 Valuation (deficit of £770m) are as follows²:

- a total of £80m per annum payable by the Midlands Issuers between 1 April 2014 to 31 March 2022 payable in equal monthly instalments (subject to RPI indexation each year); plus
- an additional lump sum payable by the Midlands Issuers payable by 1 April 2022 equal to ten times the monthly instalments that would be payable over the year from 1 April 2022 after allowing for indexation.

Cash contributions - Other

In addition to contributions to eliminate the deficit, the Midlands Issuers will be required to pay contributions towards the benefits that members will continue to accrue in the Central Networks Group and the WPPS, along with contributions to meet the running costs of the Central Networks Group and the Pension Protection Fund levies payable.

² Deficit repair payments may be subject to change following the conclusion of the 2016 valuation.

Pensions – WPD South West and WPD South Wales

Background

WPD South West and WPD South Wales (together the **WW Issuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement requirements in relation to the WPD ESPS Schemes currently represent the majority of the pension funding requirements the WW Issuers will be required to meet. The WPD ESPS Schemes are closed to new members and new employees are to join the WPPS.

In addition, WPD South Wales is the principal employer of the Western Power Utilities Pension Scheme (**WPUPS**), which is a defined benefit scheme providing benefits to previous employees of various Hyder group companies and was transferred from Hyder in April 2002. However PPL WPD Limited has taken financial responsibility for this scheme. Hyder (in liquidation) was acquired by an affiliate of PPL WPD Limited and previously owned WPD South Wales. WPUPS is closed to new members and future accrual.

WPD (South Wales) is also the principal employer of the Infracore 92 Pension Scheme (I92), which is an hybrid defined contribution/defined benefit scheme providing benefits to previous employees of a Hyder group subsidiary company formerly known as Swalec and which was transferred from Swalec in August 2000.

Cash contributions – WPD Group

The deficit repair payments currently agreed in relation to the WPD Group 2013 valuation (Deficit = £828m) are as follows³:

- A total of £85m payable by the WW Issuers per annum from 1 April 2014 to 31 January 2023, payable in equal monthly instalments (subject to RPI indexation each year)

Cash contributions – WPUPS

The deficit repair payments currently agreed in relation to the 2013 valuation (deficit of £146.5m) are as follows⁴:

- £16m per annum payable by WPD South Wales⁵ between 1 April 2014 to 30 November 2023, payable in equal monthly instalments (subject to RPI indexation each year); plus
- A lump sum payable by WPD South Wales equal to four monthly payments in December 2023.

³Deficit repair payments may be subject to change following the conclusion of the 2016 valuation.

⁴Deficit repair payments may be subject to change following the conclusion of the 2016 valuation.

⁵Reimbursed by PPL WPD Limited - See Pensions/WPD South West and WPD South Wales/Background above.

Cash contributions – I92

The deficit repair payments currently agreed in relation to the 2013 Valuation (deficit of £3.96m) are as follows⁶:

- £400k per annum payable by WPD (South Wales) plc between 31 March 2014 and 31 March 2020 (inclusive); plus
- Up to a further £245,000 each year if actual investment returns are less than 6.1 per cent. per annum.

Cash contributions – Other

In addition to contributions to eliminate the deficits, the WW Issuers will be required to pay contributions towards the benefits that members will continue to accrue in the WPD Group and the WPPS, along with contributions to meet the running costs of the WPD Group, the WPUPS, the WPPS and the Pension Protection Fund levies payable.

⁶Deficit repair payments may be subject to change following the conclusion of the 2016 valuation.

TAXATION

UK Taxation

The following is a summary of each Issuer's understanding of current United Kingdom law and published HM Revenue & Customs (HMRC) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. Some aspects do not apply to certain classes of person to whom special rules may apply and it is not intended to be exhaustive. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

1. Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange", within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of, and in accordance with, the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Payments of interest on the Notes may be made without withholding or deduction on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement or borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction or tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in the Dealer Agreement, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Dealer Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in the paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will offer and sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of any Series of Notes or the closing date related to such Series of Notes (such period the **Distribution Compliance Period**) only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until the end of the Distribution Compliance Period for any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Indexed Notes shall be subject to such additional U.S. selling restrictions as the Relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant

Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer State**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State, and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Relevant Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, (i) the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and (ii) the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes having a maturity of less than one year (a) it is a person whose ordinary activities involve it in acquiring, holding managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Relevant Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of

section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Relevant Issuer; and

- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Relevant Issuer, the Note Trustee nor any of the other Dealers shall have any responsibility therefore.

Neither the Relevant Issuer, the Note Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Relevant Issuer and the relevant Dealer shall agree.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of WPDW passed on 4 September 2013, of WPDE passed on 4 September 2013, of WPD South West passed on 4 September 2013 and of WPD South Wales passed on 4 September 2013. The update of the Programme has been duly authorised by a resolution of the Board of Directors of each of the Issuers passed at a meeting of each of the Board of Directors held on 7 September 2016.

Each issue of Notes under the Programme will be authorised by the Committee of the Board of Directors of the Relevant Issuer.

Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the regulated market of the London Stock Exchange. The listing of the Programme in respect of Notes is expected to be granted on or before 15 September 2016.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the documents referred to in the section *Documents Incorporated by Reference* and the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agents for the time being in London:

- (i) the memorandum and articles of association of each Issuer;
- (ii) the Agency Agreement;
- (iii) the Trust Deed; and
- (iv) a copy of this Prospectus and of any supplements thereto.

In addition, the documents referred to in the section *Documents Incorporated by Reference*, this Prospectus and each Final Terms relative to the Notes which are admitted to trading on the regulated market of the London Stock Exchange are also available at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the

Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Material Contracts

There are no material contracts entered into other than in the ordinary course of the Issuers' businesses which could result in either being under an obligation or entitlement that is material to the Issuers' ability to meet their obligations to Noteholders in respect of the Notes being issued.

Significant or Material Change

There has been no significant change in the financial or trading position of any of the Issuers and / or of their subsidiaries since 31 March 2016 and there has been no material adverse change in the prospects of any of the Issuers since 31 March 2016.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Issuer is aware) of any of the Issuers in the 12 months preceding the date of this document which may have or have in the recent past had a significant effect on the financial position or profitability of any of the Issuers.

Auditors

Ernst & Young LLP, registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, have audited, without qualification, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board the financial statements of WPD South West, WPD South Wales, WPDW and WPDE for the financial years ended on 2015 and 2016.

Ernst & Young LLP, as previous auditors of the Issuers, did not have any material interest in any Issuer.

Deloitte LLP, as incumbent auditors of the Issuers, do not have any material interest in any Issuer

The audit reports in respect of the financial years ended 2015 and 2016 for WPD South West, WPD South Wales, WPDW and WPDE contain the statement that such report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and that their audit work has been undertaken so that they might state to the company's members those matters they are required to state to them in an auditor's report and for no other purpose.

Such a statement is recommended in guidance issued by the Institute of Chartered Accountants in England and Wales for inclusion in all Section 235 and Chapter 3 of Part 16 audit reports (as applicable) produced by audit firms.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers, other members of the WPD Group and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers, other members of the WPD Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Western Power Distribution (East Midlands) plc

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Western Power Distribution (South West) plc

Avonbank
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Bristol BS2 0TB

Western Power Distribution (South Wales) plc

Avonbank
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Bristol BS2 0TB

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135 Bishopsgate
London EC2M 3UR

**COMMITMENT EXTENSION AND INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Commitment Increase Pursuant to Section 2.19 and Amendment Pursuant
to Section 9.05 of Existing Credit Agreement)**

This **COMMITMENT EXTENSION AND INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT** (this "**Agreement**") dated as of December 1, 2016, is entered into by and among **PPL ELECTRIC UTILITIES CORPORATION**, a Pennsylvania corporation ("**Borrower**"), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the "**Extending Lenders**"), the undersigned lenders providing the increased Commitments (collectively, the "**Increasing Lenders**") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the "**Administrative Agent**"), Swingline Lender and Issuing Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Increasing Lenders, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the "**Existing Credit Agreement**" and as amended hereby, the "**Credit Agreement**").

B. The Borrower desires to amend Section 2.08(d) of the Existing Credit Agreement to change the existing extension provisions, effective as of the date hereof, and the Lenders party hereto agree to such amendment (the "**Extension Amendment**"). Pursuant to Section 2.08(d) of the Credit Agreement, after giving effect to the Extension Amendment, Borrower has requested an extension of the Termination Date (the "**Commitment Extension**") of the Commitments from January 29, 2021 to January 27, 2022, effective on January 27, 2017 (the "**Extension Date**").

C. Pursuant to Section 2.19 of the Existing Credit Agreement, this Agreement is being executed to evidence Borrower's requested increase in the aggregate Lenders' Commitments from \$400,000,000 to \$650,000,000 (the "**Commitment Increase**"), effective on the Increase Effective Date (as hereafter defined in Section 3).

D. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto. Each of the undersigned Increasing Lenders has agreed to increase its Commitment in accordance with Schedule II hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of and/or Increase in Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 27, 2022, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the "**Current Termination Date**." Effective as of the Increase Effective Date, each Increasing Lender identified on Schedule II agrees that its aggregate Commitment shall be in the amount set forth on Schedule II.

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Extending Lender;
 - b) an Extension Letter;

- c) a certificate (in the form of Exhibit A hereto) of the Borrower dated the Extension Date signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and
 - iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the PUC and/or FERC, required to authorize the Commitment Extension are attached thereto and remain in full force and effect.
 - d) Opinions of counsel (in the form of Exhibit B) for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 2(1)(c)(iii) which could restrain or prevent the Commitment Extension or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Extension.
- 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;
- 4) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.
- 3. Conditions Precedent to Effectiveness of Commitment Increase.** Subject to the satisfaction of the following conditions, the Commitment Increase shall be effective as of the date hereof (such date the "***Increase Effective Date***");

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Increasing Lender;
 - b) a Notice of Revolving Increase Letter;
 - c) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Increase Effective Date, certifying that the resolutions adopted by the Borrower authorizing the Commitment Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.
 - d) a certificate of the Borrower dated the Increase Effective Date signed by a Responsible Officer of the Borrower, certifying that:
 - i) the representations and warranties of the Borrower contained in Article V of the Credit Agreement are true and correct in all material respects on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects as of such earlier date;
 - ii) on such date and after giving effect to the Commitment Increase, no Default under the Credit Agreement has occurred and is continuing; and

iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the PUC and/or FERC, required to approve the Commitment Increase are attached thereto and remain in full force and effect.

- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 3(1)(d)(iii) which could restrain or prevent the Commitment Increase or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Increase.
- 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;

4. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the date hereof, Section 2.08(d)(ii) of the Existing Credit Agreement is amended by adding the words “up to” immediately prior to “one year after the Current Termination Date.”

5. Changes in Commitment Ratios. On the Increase Effective Date, the Commitment Ratio of the Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in Section 1, and the participations of the Lenders in and the obligations of the Lenders in respect of any Letters of Credit outstanding on the Increase Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

6. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

7. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAINS IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER CONFIRMS AND RATIFIES ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PPL ELECTRIC UTILITIES CORPORATION
a Pennsylvania corporation

By: _____ /s/ Joseph P. Bergstein, Jr.
Name: Joseph P. Bergstein, Jr.
Title: Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Swingline Lender and Issuing Lender

By: _____ /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: _____ /s/ Fredrick W. Price
Name: Frederick W. Price
Title: Managing Director

BANK OF AMERICA, N.A.
as an Increasing Lender

By: _____ /s/ Maggie Halleland
Name: Maggie Halleland
Title: Vice President

BANK OF AMERICA, N.A.
as an Extending Lender

By: _____ /s/ Maggie Halleland
Name: Maggie Halleland
Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Increasing Lender

By: _____ /s/ Juan J. Javellana
Name: Juan J. Javellana
Title: Executive Director

BARCLAYS BANK PLC
as an Increasing Lender

By: _____ /s/ Vanessa Kurbatskiy
Name: Vanessa Kurbatskiy
Title: Vice President

BARCLAYS BANK PLC
as an Extending Lender

By: _____ /s/ Vanessa Kurbatskiy
Name: Vanessa Kurbatskiy
Title: Vice President

CITIBANK, N.A.,
as an Increasing Lender

By: _____ /s/ Richard Rivera

Name: Richard Rivera

Title: Vice President

CITIBANK, N.A.,
as an Extending Lender

By: _____ /s/ Richard Rivera

Name: Richard Rivera

Title: Vice President

MIZUHO BANK, LTD.

as an Increasing Lender

By: _____ /s/ David Lim

Name: David Lim

Title: Authorized Signatory

MIZUHO BANK, LTD.

as an Extending Lender

By: _____ /s/ David Lim

Name: David Lim

Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Increasing Lender

By: _____ /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: _____ /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as an Increasing Lender

By: _____ /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as an Extending Lender

By: _____ /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS

as an Increasing Lender

By: _____ /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

BNP PARIBAS

as an Increasing Lender

By: _____ /s/ Karima Omar

Name: Karima Omar

Title: Vice President

BNP PARIBAS

as an Extending Lender

By: _____ /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

BNP PARIBAS

as an Extending Lender

By: _____ /s/ Karima Omar

Name: Karima Omar

Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH
as an Increasing Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH
as an Extending Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Increasing Lender

By: _____ /s/ Josh Rosenthal

Name: Josh Rosenthal

Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Extending Lender

By: _____ /s/ Josh Rosenthal
Name: Josh Rosenthal
Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.,
as an Increasing Lender

By: /s/ Michael King
Name: Michael King
Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.,
as an Extending Lender

By: /s/ Michael King
Name: Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Increasing Lender

By: _____ /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: _____ /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

SUN TRUST BANK
as an Increasing Lender

By: _____ /s/ Shannon Juhan

Name: Shannon Juhan

Title: Director

SUN TRUST BANK
as an Extending Lender

By: _____ /s/ Shannon Juhan

Name: Shannon Juhan

Title: Director

UBS AG, STAMFORD BRANCH
as an Increasing Lender

By: _____ /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director

By: _____ /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

THE BANK OF NEW YORK MELLON
as an Increasing Lender

By: _____ /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: _____ /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ Thomas E. Redmond
Name: Thomas E. Redmond
Title: Managing Director

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: _____ /s/ Thomas E. Redmond
Name: Thomas E. Redmond
Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 42,250,000	6.5%
Bank of America, N.A.	42,250,000	6.5%
JPMorgan Chase Bank, N.A.	42,250,000	6.5%
Barclays Bank PLC	42,250,000	6.5%
Citibank, N.A.	42,250,000	6.5%
Mizuho Bank, Ltd.	42,250,000	6.5%
The Bank of Nova Scotia	32,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	32,500,000	5.0%
BNP Paribas	32,500,000	5.0%
Canadian Imperial Bank of Commerce	32,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	32,500,000	5.0%
Goldman Sachs Bank USA	32,500,000	5.0%
Morgan Stanley Bank, N.A.	32,500,000	5.0%
Royal Bank of Canada	32,500,000	5.0%
Suntrust Bank	32,500,000	5.0%
UBS AG, Stamford Branch	32,500,000	5.0%
U.S. Bank National Association	32,500,000	5.0%
The Bank of New York Mellon	19,500,000	3.0%
PNC Bank, National Association	19,500,000	3.0%
Total	\$ 650,000,000	100%

SCHEDULE II

COMMITMENTS AND APPLICABLE PERCENTAGES OF INCREASING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 42,250,000	6.5%
Bank of America, N.A.	42,250,000	6.5%
JPMorgan Chase Bank, N.A.	42,250,000	6.5%
Barclays Bank PLC	42,250,000	6.5%
Citibank, N.A.	42,250,000	6.5%
Mizuho Bank, Ltd.	42,250,000	6.5%
The Bank of Nova Scotia	32,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	32,500,000	5.0%
BNP Paribas	32,500,000	5.0%
Canadian Imperial Bank of Commerce	32,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	32,500,000	5.0%
Goldman Sachs Bank USA	32,500,000	5.0%
Morgan Stanley Bank, N.A.	32,500,000	5.0%
Royal Bank of Canada	32,500,000	5.0%
Suntrust Bank	32,500,000	5.0%
UBS AG, Stamford Branch	32,500,000	5.0%
U.S. Bank National Association	32,500,000	5.0%
The Bank of New York Mellon	19,500,000	3.0%
PNC Bank, National Association	19,500,000	3.0%
Total	\$ 650,000,000	100%

Exhibit A – Form of Officer’s Certificate to be dated the Extension Date

Exhibit B – Form of Counsel’s Opinion to be dated the Extension Date

**COMMITMENT EXTENSION AND INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Commitment Increase Pursuant to Section 2.19 and Amendment Pursuant
to Section 9.05 of Existing Credit Agreement)**

This **COMMITMENT EXTENSION AND INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT** (this "**Agreement**") dated as of December 1, 2016, is entered into by and among **PPL CAPITAL FUNDING, INC.**, a Delaware corporation ("**Borrower**"), PPL Corporation, a Pennsylvania corporation ("**Guarantor**"), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the "**Extending Lenders**"), the undersigned lenders providing the increased Commitments (collectively, the "**Increasing Lenders**") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the "**Administrative Agent**"), Swingline Lender and Issuing Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, Guarantor, the Increasing Lenders, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the "**Existing Credit Agreement**" and as amended hereby, the "**Credit Agreement**").

B. The Borrower desires to amend Section 2.08(d) of the Existing Credit Agreement to change the existing extension provisions, effective as of the date hereof, and the Lenders party hereto agree to such amendment (the "**Extension Amendment**"). Pursuant to Section 2.08(d) of the Credit Agreement, after giving effect to the Extension Amendment, Borrower has requested an extension of the Termination Date (the "**Commitment Extension**") of the Commitments from January 29, 2021 to January 27, 2022, effective on January 27, 2017 (the "**Extension Date**").

C. Pursuant to Section 2.19 of the Existing Credit Agreement, this Agreement is being executed to evidence Borrower's requested increase in the aggregate Lenders' Commitments from \$700,000,000 to \$950,000,000 (the "**Commitment Increase**"), effective on the Increase Effective Date (as hereafter defined in Section 3).

D. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto. Each of the undersigned Increasing Lenders has agreed to increase its Commitment in accordance with Schedule II hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of and/or Increase in Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 27, 2022, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the "**Current Termination Date**." Effective as of the Increase Effective Date, each Increasing Lender identified on Schedule II agrees that its aggregate Commitment shall be in the amount set forth on Schedule II.

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower, Guarantor and each Extending Lender;
 - b) an Extension Letter;

- c) a certificate (in the form of Exhibit A hereto) of the Borrower dated the Extension Date signed by an Authorized Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05, Section 5.13 and Section 5.14(a) of the Credit Agreement; and
 - iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Borrower to authorize the Commitment Extension.
- d) a certificate (in the form of Exhibit B hereto) of the Guarantor dated the Extension Date signed by an Authorized Officer of the Guarantor, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Guarantor contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05, Section 5.13 and Section 5.14(a) of the Credit Agreement; and
 - iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Guarantor to authorize the Commitment Extension.
- e) Opinions of counsel (in the form of Exhibit C) for each of the Loan Parties, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;
- 3) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Conditions Precedent to Effectiveness of Commitment Increase. Subject to the satisfaction of the following conditions, the Commitment Increase shall be effective as of the date hereof (such date the “*Increase Effective Date*”):

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Increasing Lender;
 - b) a Notice of Revolving Increase Letter;
 - c) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Increase Effective Date, certifying that the resolutions adopted by the Borrower authorizing the Commitment Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.
 - d) a certificate of the Borrower dated the Increase Effective Date signed by an Authorized Officer of the Borrower, certifying that:
 - i) the representations and warranties of the Borrower contained in Article V of the Credit Agreement are true and correct in all material respects on and as of the Increase Effective Date, except to the

extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects as of such earlier date;

- ii) on such date and after giving effect to the Commitment Increase, no Default under the Credit Agreement has occurred and is continuing; and
 - iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Borrower to authorize the Commitment Increase.
- e) a certificate of the Secretary or Assistant Secretary of the Guarantor dated the Increase Effective Date, certifying that the resolutions adopted by the Guarantor authorizing the Commitment Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.
- f) a certificate of the Guarantor dated the Increase Effective Date signed by an Authorized Officer of the Guarantor, certifying that:
- i) the representations and warranties of the Guarantor contained in Article V of the Credit Agreement are true and correct in all material respects on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects as of such earlier date;
 - ii) on such date and after giving effect to the Commitment Increase, no Default under the Credit Agreement has occurred and is continuing; and
 - iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Guarantor to authorize the Commitment Increase.
- 2) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;

4. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the date hereof, Section 2.08(d)(ii) of the Existing Credit Agreement is amended by adding the words “up to” immediately prior to “one year after the Current Termination Date.”

5. Changes in Commitment Ratios. On the Increase Effective Date, the Commitment Ratio of the Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in Section 1, and the participations of the Lenders in and the obligations of the Lenders in respect of any Letters of Credit outstanding on the Increase Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

6. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

7. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAINS IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER AND THE GUARANTOR CONFIRM AND RATIFY ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PPL CAPITAL FUNDING, INC.

a Delaware corporation

By: /s/ Joseph P. Bergstein, Jr.

Name: Joseph P. Bergstein, Jr.

Title: Treasurer

PPL CORPORATION

a Pennsylvania corporation

By: /s/ Joseph P. Bergstein, Jr.

Name: Joseph P. Bergstein, Jr.

Title: Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Swingline Lender and Issuing Lender

By: /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: _____ /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

BANK OF AMERICA, N.A.
as an Increasing Lender

By: _____ /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

BANK OF AMERICA, N.A.
as an Extending Lender

By: _____ /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Increasing Lender

By: _____ /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

JPMORGAN CHASE BANK, N.A.
as an Extending Lender

By: _____ /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

BARCLAYS BANK PLC
as an Increasing Lender

By: _____ /s/ Vanessa Kurbatskiy
Name: Vanessa Kurbatskiy
Title: Vice President

BARCLAYS BANK PLC
as an Extending Lender

By: _____ /s/ Vanessa Kurbatskiy
Name: Vanessa Kurbatskiy
Title: Vice President

CITIBANK, N.A.,
as an Increasing Lender

By: _____ /s/ Richard Rivera

Name: Richard Rivera

Title: Vice President

CITIBANK, N.A.,
as an Extending Lender

By: _____ /s/ Richard Rivera

Name: Richard Rivera

Title: Vice President

MIZUHO BANK, LTD.

as an Increasing Lender

By: _____ /s/ David Lim

Name: David Lim

Title: Authorized Signatory

MIZUHO BANK, LTD.

as an Extending Lender

By: _____ /s/ David Lim

Name: David Lim

Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Increasing Lender

By: _____ /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: _____ /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as an Increasing Lender

By: _____ /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as an Extending Lender

By: _____ /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS

as an Increasing Lender

By: _____ /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

BNP PARIBAS

as an Increasing Lender

By: _____ /s/ Karima Omar

Name: Karima Omar

Title: Vice President

BNP PARIBAS

as an Extending Lender

By: _____ /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

BNP PARIBAS

as an Extending Lender

By: _____ /s/ Karima Omar

Name: Karima Omar

Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH
as an Increasing Lender

By: _____ /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: _____ /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH
as an Extending Lender

By: _____ /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: _____ /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Increasing Lender

By: _____ /s/ Josh Rosenthal

Name: Josh Rosenthal

Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Extending Lender

By: _____ /s/ Josh Rosenthal

Name: Josh Rosenthal

Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.,
as an Increasing Lender

By: _____ /s/ Michael King

Name: Michael King

Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.,
as an Extending Lender

By: _____ /s/ Michael King
Name: Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Increasing Lender

By: _____ /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: _____ /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

SUN TRUST BANK
as an Increasing Lender

By: _____ /s/ Shannon Juhan
Name: Shannon Juhan
Title: Director

SUN TRUST BANK
as an Extending Lender

By: _____ /s/ Shannon Juhan

Name: Shannon Juhan

Title: Director

UBS AG, STAMFORD BRANCH
as an Increasing Lender

By: _____ /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director

By: _____ /s/ Darlene Arias

Name: Darlene Arias

Title: Director

UBS AG, STAMFORD BRANCH
as an Extending Lender

By: _____ /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director

By: _____ /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

THE BANK OF NEW YORK MELLON
as an Increasing Lender

By: _____ /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: _____ /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Increasing Lender

By: _____ /s/ Thomas E. Redmond

Name: Thomas E. Redmond

Title: Managing Director

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: _____ /s/ Thomas E. Redmond
Name: Thomas E. Redmond
Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 61,750,000	6.5%
Bank of America, N.A.	61,750,000	6.5%
JPMorgan Chase Bank, N.A.	61,750,000	6.5%
Barclays Bank PLC	61,750,000	6.5%
Citibank, N.A.	61,750,000	6.5%
Mizuho Bank, Ltd.	61,750,000	6.5%
The Bank of Nova Scotia	47,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,500,000	5.0%
BNP Paribas	47,500,000	5.0%
Canadian Imperial Bank of Commerce	47,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	47,500,000	5.0%
Goldman Sachs Bank USA	47,500,000	5.0%
Morgan Stanley Bank, N.A.	47,500,000	5.0%
Royal Bank of Canada	47,500,000	5.0%
Suntrust Bank	47,500,000	5.0%
UBS AG, Stamford Branch	47,500,000	5.0%
U.S. Bank National Association	47,500,000	5.0%
The Bank of New York Mellon	28,500,000	3.0%
PNC Bank, National Association	28,500,000	3.0%
Total	\$ 950,000,000	100%

SCHEDULE II

COMMITMENTS AND APPLICABLE PERCENTAGES OF INCREASING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 61,750,000	6.5%
Bank of America, N.A.	61,750,000	6.5%
JPMorgan Chase Bank, N.A.	61,750,000	6.5%
Barclays Bank PLC	61,750,000	6.5%
Citibank, N.A.	61,750,000	6.5%
Mizuho Bank, Ltd.	61,750,000	6.5%
The Bank of Nova Scotia	47,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,500,000	5.0%
BNP Paribas	47,500,000	5.0%
Canadian Imperial Bank of Commerce	47,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	47,500,000	5.0%
Goldman Sachs Bank USA	47,500,000	5.0%
Morgan Stanley Bank, N.A.	47,500,000	5.0%
Royal Bank of Canada	47,500,000	5.0%
Suntrust Bank	47,500,000	5.0%
UBS AG, Stamford Branch	47,500,000	5.0%
U.S. Bank National Association	47,500,000	5.0%
The Bank of New York Mellon	28,500,000	3.0%
PNC Bank, National Association	28,500,000	3.0%
Total	\$ 950,000,000	100%

Exhibit A – Form of Officer’s Certificate of Borrower to be dated the Extension Date

Exhibit B – Form of Officer’s Certificate of Guarantor to be dated the Extension Date

Exhibit C – Form of Counsel’s Opinion to be dated the Extension Date

COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

This **COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT** (this “*Agreement*”) dated as of January 4, 2017, is entered into by and among **KENTUCKY UTILITIES COMPANY**, a Kentucky corporation and a Virginia Corporation (“*Borrower*”), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the “*Extending Lenders*”), the other Lenders party hereto and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the “*Administrative Agent*”), Swingline Lender and Issuing Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the “*Existing Credit Agreement*” and as amended hereby, the “*Credit Agreement*”).

B. The Borrower desires to amend the Existing Credit Agreement to change the existing Termination Date, effective as of the date hereof, from December 31, 2020 to January 27, 2021, and to make certain additional changes to Section 2.08(d) of the Existing Credit Agreement, and the Lenders party hereto agree to such amendment (the “*Termination Date Amendment*”). Pursuant to Section 2.08(d) of the Credit Agreement, after giving effect to the Termination Date Amendment, Borrower has requested a further extension of the Termination Date (the “*Commitment Extension*”) of the Commitments by one year, from January 27, 2021 to January 27, 2022, effective on January 27, 2017 (the “*Extension Date*”).

C. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 27, 2022, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the “*Current Termination Date*.”

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Extending Lender;
 - b) an Extension Letter;
 - c) a certificate (in the form of Exhibit A hereto) of the Borrower dated the Extension Date signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and

- iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the KPSC, TRA, VSCC and/or FERC, required to authorize the Commitment Extension are attached thereto and remain in full force and effect.
 - d) Opinions of counsel (in the form of Exhibit B) for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 2(1)(c)(iii) which could restrain or prevent the Commitment Extension or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Extension.
 - 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;
 - 4) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the date hereof, (a) Section 1.01 of the Existing Credit Agreement is amended by amending the definition of "Termination Date" by replacing "December 31, 2020" in clause (i) thereof with "January 27, 2021," and (b) Section 2.08(d)(ii) of the Existing Credit Agreement is amended by adding the words "up to" immediately prior to "one year after the Current Termination Date."

4. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

5. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAINS IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER CONFIRMS AND RATIFIES ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER

WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Swingline Lender and Issuing
Lender

By: /s/ Frederick W. Price

Name: Frederick W. Price

Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Frederick W. Price

Name: Frederick W. Price

Title: Managing Director

BANK OF AMERICA, N.A.
as an Extending Lender

By: /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Extending Lender

By: /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Vanessa A. Kurbatskiy
Name: Vanessa A. Kurbatskiy
Title: Vice President

CITIBANK, N.A.
as an Extending Lender

By: /s/ Richard Rivera
Name: Richard Rivera
Title: Vice President

MIZUHO BANK, LTD.
as an Extending Lender

By: /s/ David Lim
Name: David Lim
Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: /s/ David Dewar

Name: David Dewar

Title: Director

**THE BANK OF TOKYO-MITSUBISHI UFJ,
LTD., as an Extending Lender**

By: /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS
as an Extending Lender

By: /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

BNP PARIBAS
as an Extending Lender

By: /s/ Karima Omar

Name: Karima Omar

Title: Vice President

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH**
as an Extending Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Extending Lender

By: /s/ Josh Rosenthal
Name: Josh Rosenthal
Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.
as an Extending Lender

By: /s/ Michael King
Name: Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

SUN TRUST BANK
as an Extending Lender

By: /s/ Shannon Juhan

Name: Shannon Juhan

Title: Director

UBS AG, STAMFORD BRANCH
as an Extending Lender

By: /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director

By: /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Thomas E. Redmond

Name: Thomas E. Redmond

Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 26,000,000	6.5%
Bank of America, N.A.	26,000,000	6.5%
JPMorgan Chase Bank, N.A.	26,000,000	6.5%
Barclays Bank PLC	26,000,000	6.5%
Citibank, N.A.	26,000,000	6.5%
Mizuho Bank, Ltd.	26,000,000	6.5%
The Bank of Nova Scotia	20,000,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	20,000,000	5.0%
BNP Paribas	20,000,000	5.0%
Canadian Imperial Bank of Commerce	20,000,000	5.0%
Credit Suisse AG, Cayman Islands Branch	20,000,000	5.0%
Goldman Sachs Bank USA	20,000,000	5.0%
Morgan Stanley Bank, N.A.	20,000,000	5.0%
Royal Bank of Canada	20,000,000	5.0%
Suntrust Bank	20,000,000	5.0%
UBS AG, Stamford Branch	20,000,000	5.0%
U.S. Bank National Association	20,000,000	5.0%
The Bank of New York Mellon	12,000,000	3.0%
PNC Bank, National Association	12,000,000	3.0%
Total	\$ 400,000,000	100%

Exhibit A – Form of Officer’s Certificate to be dated the Extension Date

Exhibit B – Form of Counsel’s Opinion to be dated the Extension Date

COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

This **COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT** (this “*Agreement*”) dated as of January 4, 2017, is entered into by and among **LOUISVILLE GAS AND ELECTRIC COMPANY**, a Kentucky corporation (“*Borrower*”), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the “*Extending Lenders*”), the other Lenders party hereto and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the “*Administrative Agent*”), Swingline Lender and Issuing Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the “*Existing Credit Agreement*” and as amended hereby, the “*Credit Agreement*”).

B. The Borrower desires to amend the Existing Credit Agreement to change the existing Termination Date, effective as of the date hereof, from December 31, 2020 to January 27, 2021, and to make certain additional changes to Section 2.08(d) of the Existing Credit Agreement, and the Lenders party hereto agree to such amendment (the “*Termination Date Amendment*”). Pursuant to Section 2.08(d) of the Credit Agreement, after giving effect to the Termination Date Amendment, Borrower has requested a further extension of the Termination Date (the “*Commitment Extension*”) of the Commitments by one year, from January 27, 2021 to January 27, 2022, effective on January 27, 2017 (the “*Extension Date*”).

C. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 27, 2022, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the “*Current Termination Date*.”

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Extending Lender;
 - b) an Extension Letter;
 - c) a certificate (in the form of Exhibit A hereto) of the Borrower dated the Extension Date signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;

- ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and

- iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the KPSC and/or FERC, required to authorize the Commitment Extension are attached thereto and remain in full force and effect.
 - d) Opinions of counsel (in the form of Exhibit B) for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 2(1)(c)(iii) which could restrain or prevent the Commitment Extension or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Extension.
 - 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated October 31, 2016, between the Borrower and Wells Fargo Securities, LLC;
 - 4) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the date hereof, (a) Section 1.01 of the Existing Credit Agreement is amended by amending the definition of “Termination Date” by replacing “December 31, 2020” in clause (i) thereof with “January 27, 2021,” and (b) Section 2.08(d)(ii) of the Existing Credit Agreement is amended by adding the words “up to” immediately prior to “one year after the Current Termination Date.”

4. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

5. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAINS IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER CONFIRMS AND RATIFIES ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY PROVIDED HEREIN, CONSTITUTE A WAIVER OR AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER

WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY
a Kentucky corporation

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

BANK OF AMERICA, N.A.
as an Extending Lender

By: /s/ Maggie Halleland
Name: Maggie Halleland
Title: Vice President

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Vanessa A. Kurbatskiy
Name: Vanessa A. Kurbatskiy
Title: Vice President

**THE BANK OF TOKYO-MITSUBISHI UFJ,
LTD., as an Extending Lender**

By: /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH**
as an Extending Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: /s/ Lorenz Meier
Name: Lorenz Meier
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy
Name: James O'Shaughnessy
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Thomas E. Redmond
Name: Thomas E. Redmond
Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 32,500,000	6.5%
Bank of America, N.A.	32,500,000	6.5%
JPMorgan Chase Bank, N.A.	32,500,000	6.5%
Barclays Bank PLC	32,500,000	6.5%
Citibank, N.A.	32,500,000	6.5%
Mizuho Bank, Ltd.	32,500,000	6.5%
The Bank of Nova Scotia	25,000,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	25,000,000	5.0%
BNP Paribas	25,000,000	5.0%
Canadian Imperial Bank of Commerce	25,000,000	5.0%
Credit Suisse AG, Cayman Islands Branch	25,000,000	5.0%
Goldman Sachs Bank USA	25,000,000	5.0%
Morgan Stanley Bank, N.A.	25,000,000	5.0%
Royal Bank of Canada	25,000,000	5.0%
Suntrust Bank	25,000,000	5.0%
UBS AG, Stamford Branch	25,000,000	5.0%
U.S. Bank National Association	25,000,000	5.0%
The Bank of New York Mellon	15,000,000	3.0%
PNC Bank, National Association	15,000,000	3.0%
Total	\$ 500,000,000	100%

Exhibit A – Form of Officer’s Certificate to be dated the Extension Date

Exhibit B – Form of Counsel’s Opinion to be dated the Extension Date

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Earnings, as defined:					
Income Before Income Taxes	\$ 329	\$ 299	\$ 272	\$ 257	\$ 192
Total fixed charges as below	76	61	51	36	44
Total earnings	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>	<u>\$ 236</u>
Fixed charges, as defined:					
Interest charges (a) (b)	\$ 71	\$ 57	\$ 49	\$ 34	\$ 42
Estimated interest component of operating rentals	5	4	2	2	2
Total fixed charges	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>	<u>\$ 44</u>
Ratio of earnings to fixed charges	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>	<u>5.4</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015 (a)	Year Ended Dec. 31, 2014 (a)	Year Ended Dec. 31, 2013 (a)	Year Ended Dec. 31, 2012 (a)
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728	\$ 1,406
Adjustment to reflect earnings from equity method investments on a cash basis (b)	(1)	(1)	—	—	34
	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>	<u>1,440</u>
Total fixed charges as below	917	1,054	1,095	1,096	1,065
Less:					
Capitalized interest	4	11	11	11	6
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	5
Interest expense and fixed charges related to discontinued operations	—	150	186	235	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	913	893	898	850	819
Total earnings	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>	<u>\$ 2,259</u>
Fixed charges, as defined:					
Interest charges (c)	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058	\$ 1,019
Estimated interest component of operating rentals	17	16	22	38	41
Preferred securities distributions of subsidiaries on a pre-tax basis	—	—	—	—	5
Total fixed charges (d)	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>
Ratio of earnings to fixed charges	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

(b) Includes other-than-temporary impairment loss of \$25 million in 2012.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(d) Interest on unrecognized tax benefits is not included in fixed charges.

(e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Earnings, as defined:					
Income Before Income Taxes	\$ 552	\$ 416	\$ 423	\$ 317	\$ 204
Total fixed charges as below	141	139	131	117	107
Total earnings	<u>693</u>	<u>555</u>	<u>554</u>	<u>434</u>	<u>311</u>
Fixed charges, as defined:					
Interest charges (a)	137	135	127	113	104
Estimated interest component of operating rentals	4	4	4	4	3
Total fixed charges (b)	<u>141</u>	<u>139</u>	<u>131</u>	<u>117</u>	<u>107</u>
Ratio of earnings to fixed charges	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.9</u>
Preferred stock dividend requirements on a pre-tax basis	\$ —	\$ —	\$ —	\$ —	\$ 6
Fixed charges, as above	<u>141</u>	<u>139</u>	<u>131</u>	<u>117</u>	<u>107</u>
Total fixed charges and preferred stock dividends	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 113</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 686	\$ 603	\$ 553	\$ 551	\$ 331
Adjustment to reflect earnings from equity method investments on a cash basis (a)	(1)	(1)	(1)	(1)	33
	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>	<u>364</u>
Total fixed charges as below	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>	<u>157</u>
Total earnings	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>	<u>\$ 521</u>
Fixed charges, as defined:					
Interest charges (b) (c)	214	181	167	145	151
Estimated interest component of operating rentals	<u>9</u>	<u>8</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total fixed charges	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>	<u>157</u>
Ratio of earnings to fixed charges	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>	<u>3.3</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Earnings, as defined:					
Income Before Income Taxes	\$ 428	\$ 374	\$ 355	\$ 360	\$ 215
Adjustment to reflect earnings from equity method investments on a cash basis (a)	(1)	(1)	(1)	(1)	33
	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>	<u>248</u>
Total fixed charges as below	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>	<u>72</u>
Total earnings	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>	<u>\$ 320</u>
Fixed charges, as defined:					
Interest charges (b)	\$ 96	\$ 82	\$ 77	\$ 70	\$ 69
Estimated interest component of operating rentals	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>	<u>\$ 72</u>
Ratio of earnings to fixed charges	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>	<u>4.4</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

PPL Corporation
Subsidiaries of the Registrant
At December 31, 2016

Exhibit 21

The following listing of subsidiaries omits subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2016.

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
CEP Reserves, Inc.	Delaware
Kentucky Utilities Company	Kentucky and Virginia
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
PMDC International Holdings, Inc.	Delaware
PPL (Barbados) SRL	Barbados
PPL Capital Funding, Inc.	Delaware
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Global, LLC	Delaware
PPL UK Distribution Holdings Limited	United Kingdom
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	United Kingdom
PPL WPD Limited	United Kingdom
Western Power Distribution (East Midlands) plc	United Kingdom
Western Power Distribution (South West) plc	United Kingdom
Western Power Distribution (West Midlands) plc	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-202290 and 333-202278 on Form S-3 and the Registration Statement Nos. 333-215193, 333-209618, 333-181752, and 333-197629 on Form S-8 of our reports dated February 17, 2017, relating to the financial statements and financial statement schedule of PPL Corporation and subsidiaries (the “Company”) and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of PPL Corporation for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Parsippany, NJ

February 17, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-01 on Form S-3 of our report dated February 17, 2017, relating to the financial statements of PPL Electric Utilities Corporation appearing in this Annual Report on Form 10-K of PPL Electric Utilities Corporation for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Parsippany, NJ

February 17, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-02 on Form S-3 of our report dated February 17, 2017, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC appearing in this Annual Report on Form 10-K of LG&E and KU Energy LLC for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-03 on Form S-3 of our report dated February 17, 2017, relating to the financial statements of Louisville Gas and Electric Company appearing in this Annual Report on Form 10-K of Louisville Gas and Electric Company for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-04 on Form S-3 of our report dated February 17, 2017, relating to the financial statements of Kentucky Utilities Company appearing in this Annual Report on Form 10-K of Kentucky Utilities Company for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 17, 2017

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statements on Form S-3 (Nos. 333-202290 and 333-202278) and the Registration Statements on Form S-8 (Nos. 333-215193, 333-209618, 333-181752, and 333-197629) of our report dated February 19, 2016, with respect to the consolidated financial statements and schedule of PPL Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 17, 2017

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 (No. 333-202290-01) of our report dated February 19, 2016, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 17, 2017

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in LG&E and KU Energy LLC's Registration Statement on Form S-3 (No. 333-202290-02) of our report dated February 19, 2016, with respect to the consolidated financial statements and schedule of LG&E and KU Energy LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 17, 2017

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Louisville Gas and Electric Company's Registration Statement on Form S-3 (No. 333-202290-03) of our report dated February 19, 2016, with respect to the financial statements of Louisville Gas and Electric Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 17, 2017

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Kentucky Utilities Company's Registration Statement on Form S-3 (No. 333-202290-04) of our report dated February 19, 2016, with respect to the financial statements of Kentucky Utilities Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 17, 2017

PPL CORPORATION
 2016 ANNUAL REPORT
 TO THE SECURITIES AND EXCHANGE COMMISSION
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2016 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Vincent Sorgi, Joanne H. Raphael, Michael A. McGrail and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 27th day of January, 2017.

/s/ Rodney C. Adkins

Rodney C. Adkins

/s/ William H. Spence

William H. Spence

/s/ John W. Conway

John W. Conway

/s/ Natica von Althann

Natica von Althann

/s/ Steven G. Elliott

Steven G. Elliott

/s/ Keith H. Williamson

Keith H. Williamson

/s/ Venkata Rajamannar Madabhushi

Venkata Rajamannar Madabhushi

/s/ Armando Zagalo de Lima

Armando Zagalo de Lima

/s/ Craig A. Rogerson

Craig A. Rogerson

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

PPL CORPORATION AND SUBSIDIARIES
LONG-TERM DEBT SCHEDULE
(Unaudited)
(Millions of Dollars)

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2016</u>
PPL			
U.S.			
PPL Capital Funding			
<i>Senior Unsecured Notes</i>			
69352PAD5	4.200%	06/15/2022	\$ 400
69352PAE3	3.500%	12/01/2022	400
69352PAG8	1.900%	06/01/2018	250
69352PAF0	3.400%	06/01/2023	600
69352PAH6	4.700%	06/01/2043	300
69352PAK9	3.950%	03/15/2024	350
69352PAJ2	5.000%	03/15/2044	400
69352PAL7	3.100%	05/15/2026	650
Total Senior Unsecured Notes			<u>3,350</u>
<i>Junior Subordinated Notes</i>			
69352PAC7	6.700%	03/30/2067	480
69352P202	5.900%	04/30/2073	450
Total Junior Subordinated Notes			<u>930</u>
Total PPL Capital Funding Long-term Debt			<u>4,280</u>
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
Total PPL Electric Long-term Debt			<u>2,864</u>
LKE			
<i>Senior Unsecured Notes</i>			
<i>First Mortgage Bonds</i>			
Total LKE Long-term Debt ¹			<u>4,710</u>
Total U.S. Long-term Debt			<u>11,854</u>

U.K.	Interest Rate	Maturity Date	December 31, 2016
<i>Senior Unsecured Notes</i>			
USG7208UAA90	5.375%	05/01/2021	500
USG9796VAD58	7.250%	12/15/2017	100
USG9796VAE32	7.375%	12/15/2028	202
XS1315962602	3.625%	11/06/2023	625
XS0627333221	5.250%	01/17/2023	875
XS0568142482	6.250%	12/10/2040	312
XS0568142052	6.000%	05/09/2025	312
XS0627336323	5.750%	04/16/2032	1,000
XS0979476602	3.875%	10/17/2024	500
XS0061222484	9.250%	11/09/2020	188
XS0280014282	4.804%	12/21/2037	281
XS0496999219	5.750%	03/23/2040	250
XS0165510313	5.875%	03/25/2027	312
XS0496975110	5.750%	03/23/2040	250
Total Senior Unsecured Notes			5,707
<i>Index-Linked Notes</i> ²			
XS0632038666	2.671%	06/01/2043	199
XS0974143439	1.676%	09/24/2052	139
XS0277685987	1.541%	12/01/2053	174
XS0279320708	1.541%	12/01/2056	199
N/A ³	0.498%	05/31/2026	127
Total Index-Linked Notes			838
Total U.K. Long-term Debt			6,545
Total Long-term Debt Before Adjustments			18,399
Fair market value adjustments			22
Unamortized premium and (discount), net			20
Unamortized debt issuance costs			(115)
Total Long-term Debt			18,326
Less current portion of Long-term Debt			518
Total Long-term Debt, noncurrent			\$ 17,808

	Interest Rate	Maturity Date	December 31, 2016
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
524808BU5 ⁴	0.900%	09/01/2029	\$ 116
524808BV3 ⁴	0.900%	02/15/2027	108
70869MAC8	4.000%	10/01/2023	90
69351UAG8	5.150%	12/15/2020	100
69351UAP8	3.000%	09/15/2021	400
69351UAQ6	2.500%	09/01/2022	250
69351UAH6	6.450%	08/15/2037	250
69351UAM5	6.250%	05/15/2039	300
69351UAN3	5.200%	07/15/2041	250
69351UAR4	4.750%	07/15/2043	350
69351UAS2	4.125%	06/15/2044	300
69351UAT0	4.150%	10/01/2045	350
Total Senior Secured Notes			2,864
Total Long-term Debt Before Adjustments			2,864
Unamortized discount			(12)
Unamortized debt issuance costs			(21)
Total Long-term Debt			2,831
Less current portion of Long-term Debt			224
Total Long-term Debt, noncurrent			\$ 2,607
LKE			
<i>Senior Unsecured Notes</i>			
50188FAD7	3.750%	11/15/2020	\$ 475
50188FAE5	4.375%	10/01/2021	250
Total Senior Unsecured Notes			725
LG&E			
<i>First Mortgage Bonds</i>			
			1,634
KU			
<i>First Mortgage Bonds</i>			
			2,351
Total Long-term Debt Before Adjustments			4,710
Fair market value adjustments			(1)
Unamortized discount			(15)
Unamortized debt issuance costs			(29)
Total Long-term Debt			4,665
Less current portion of Long-term Debt			194
Total Long-term Debt, noncurrent ¹			\$ 4,471

	Interest Rate	Maturity Date	December 31, 2016
LG&E			
<i>First Mortgage Bonds</i>			
47302PAA8 ⁵	1.300%	09/01/2027	\$ 10
473044BV6 ^{5,7}	0.850%	09/01/2026	23
546676AU1	5.125%	11/15/2040	285
546676AV9	4.650%	11/15/2043	250
546676AW7	3.300%	10/01/2025	300
546676AX5	4.375%	10/01/2045	250
546749AJ1 ⁴	1.650%	10/01/2033	128
546749AK8 ⁴	2.200%	02/01/2035	40
546749AL6 ⁴	1.350%	11/01/2027	35
546751AE8 ⁴	1.150%	06/01/2033	31
546751AG3 ⁴	1.600%	06/01/2033	35
896221AA6	4.600%	06/01/2033	60
896224AW2 ⁴	1.350%	11/01/2027	35
896224AX0 ⁴	1.050%	09/01/2026	27
896224AY8 ^{5,7}	0.830%	09/01/2044	125
Total Long-term Debt Before Adjustments			1,634
Fair market value adjustments			(1)
Unamortized discount			(4)
Unamortized debt issuance costs			(12)
Total Long-term Debt			1,617
Less current portion of Long-term Debt			194
Total Long-term Debt, noncurrent			\$ 1,423

	Interest Rate	Maturity Date	December 31, 2016
KU			
<i>First Mortgage Bonds</i>			
144838AA7 ^{6,7}	0.850%	02/01/2032	\$ 21
144838AB5 ^{6,7}	0.850%	02/01/2032	2
144838AD1 ⁴	1.050%	09/01/2042	96
14483RAH0	5.750%	02/01/2026	18
14483RAM9 ^{6,7}	0.750%	10/01/2034	50
14483RAN7 ^{6,7}	0.730%	02/01/2032	78
14483RAP2 ^{6,7}	0.710%	10/01/2034	54
491674BE6	3.250%	11/01/2020	500
491674BG1/BF3	5.125%	11/01/2040	750
491674BJ5	4.650%	11/15/2043	250
491674BK2	3.300%	10/01/2025	250
491674BL0	4.375%	10/01/2045	250
587824AA1 ^{6,7}	0.850%	02/01/2032	8
587829AC6 ^{6,7}	0.740%	05/01/2023	13
62479PAA4 ^{6,7}	0.850%	02/01/2032	2
896221AC2	6.000%	03/01/2037	9
Total Long-term Debt Before Adjustments			2,351
Unamortized discount			(9)
Unamortized debt issuance costs			(15)
Total Long-term Debt			2,327
Less current portion of Long-term Debt			—
Total Long-term Debt, noncurrent			\$ 2,327

(1)Excludes a \$400 million intercompany note between LKE and an affiliate due 2026.

(2)Principal amount of the notes are adjusted based on changes in a specified index, as detailed in the terms of the related indentures.

(3)No CUSIP - Facility loan.

(4)Securities are currently in a term rate mode. Securities may be put back to the company on a date prior to the stated maturity date.

(5)Securities have a floating rate of interest that periodically resets. At December 31, 2016 the weighted average rate of the \$158 million of notes at LG&E was 0.86%.

(6)Securities have a floating rate of interest that periodically resets. At December 31, 2016 the weighted average rate of the \$228 million of notes at KU was 0.75%.

(7)Securities may be put back to the company on a date prior to the stated maturity date.

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: May 04, 2017 (period: March 31, 2017)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2017
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	[X]	[]	[]	[]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]	[]
Kentucky Utilities Company	[]	[]	[X]	[]	[]

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <u> </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u> </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u> </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u> </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u> </u>	No <u>X</u>

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 683,174,778 shares outstanding at April 27, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 27, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 27, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 27, 2017.

This document is available free of charge at the Investors section of PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2017

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, a direct U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary ofLKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard.

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AOI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - At-the-Market stock offering program.

BSER - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - A non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - Earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

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NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NSR - The new source review provisions of the Clean Air Act that impose stringent emission control requirements on new and modified sources of air emissions that result in emission increases beyond thresholds allowed by the Clean Air Act.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piqueton, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures, which have continued from April 2015 under RIIO-ED1. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - Renewable Energy Credits.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD which commenced April 1, 2015.

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

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SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2016 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended March 31,	
	2017	2016
Operating Revenues	\$ 1,951	\$ 2,011
Operating Expenses		
Operation		
Fuel	191	197
Energy purchases	215	233
Other operation and maintenance	432	450
Depreciation	242	229
Taxes, other than income	75	79
Total Operating Expenses	<u>1,155</u>	<u>1,188</u>
Operating Income	796	823
Other Income (Expense) - net	(47)	61
Interest Expense	<u>217</u>	<u>224</u>
Income Before Income Taxes	532	660
Income Taxes	<u>129</u>	<u>179</u>
Net Income	\$ 403	\$ 481
Earnings Per Share of Common Stock:		
Net Income Available to PPL Common Shareowners:		
Basic	\$ 0.59	\$ 0.71
Diluted	\$ 0.59	\$ 0.71
Dividends Declared Per Share of Common Stock	\$ 0.3950	\$ 0.38
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	680,882	675,441
Diluted	683,084	678,817

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Net income	\$ 403	\$ 481
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of (\$1), (\$2)	(24)	(464)
Qualifying derivatives, net of tax of \$2, (\$15)	(6)	80
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Qualifying derivatives, net of tax of \$0, \$19	(1)	(78)
Defined benefit plans:		
Net actuarial (gain) loss, net of tax of (\$9), (\$9)	32	31
Total other comprehensive income (loss)	1	(431)
Comprehensive income	\$ 404	\$ 50

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 403	\$ 481
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	242	229
Amortization	23	18
Defined benefit plans - expense (income)	(19)	(13)
Deferred income taxes and investment tax credits	161	162
Unrealized (gains) losses on derivatives, and other hedging activities	35	(34)
Stock-based compensation expense	19	13
Other	(1)	(5)
Change in current assets and current liabilities		
Accounts receivable	(43)	(62)
Accounts payable	(84)	(43)
Unbilled revenues	52	18
Fuel, materials and supplies	44	25
Prepayments	(110)	(86)
Taxes payable	(21)	15
Other current liabilities	(60)	(66)
Other	5	18
Other operating activities		
Defined benefit plans - funding	(520)	(123)
Other assets	5	(5)
Other liabilities	4	15
Net cash provided by operating activities	<u>135</u>	<u>557</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(677)	(656)
Expenditures for intangible assets	(3)	(6)
Net (increase) decrease in restricted cash and cash equivalents	2	—
Other investing activities	1	1
Net cash used in investing activities	<u>(677)</u>	<u>(661)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	64	224
Retirement of long-term debt	—	(224)
Issuance of common stock	73	42
Payment of common stock dividends	(258)	(255)
Net increase (decrease) in short-term debt	744	351
Other financing activities	(16)	(23)
Net cash provided by (used in) financing activities	<u>607</u>	<u>115</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>3</u>	<u>(33)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>68</u>	<u>(22)</u>
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	<u>\$ 409</u>	<u>\$ 814</u>

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$ 236	\$ 279
Accrued expenditures for intangible assets at March 31,	\$ 62	\$ 64

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 409	\$ 341
Accounts receivable (less reserve: 2017, \$53; 2016, \$54)		
Customer	702	666
Other	58	46
Unbilled revenues	427	480
Fuel, materials and supplies	312	356
Prepayments	173	63
Price risk management assets	95	63
Other current assets	51	52
Total Current Assets	2,227	2,067
Property, Plant and Equipment		
Regulated utility plant	35,229	34,674
Less: accumulated depreciation - regulated utility plant	6,197	6,013
Regulated utility plant, net	29,032	28,661
Non-regulated property, plant and equipment	413	413
Less: accumulated depreciation - non-regulated property, plant and equipment	137	134
Non-regulated property, plant and equipment, net	276	279
Construction work in progress	1,099	1,134
Property, Plant and Equipment, net	30,407	30,074
Other Noncurrent Assets		
Regulatory assets	1,908	1,918
Goodwill	3,050	3,060
Other intangibles	644	700
Pension benefit asset	363	9
Price risk management assets	284	336
Other noncurrent assets	151	151
Total Other Noncurrent Assets	6,400	6,174
Total Assets	\$ 39,034	\$ 38,315

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,666	\$ 923
Long-term debt due within one year	417	518
Accounts payable	700	820
Taxes	80	101
Interest	299	270
Dividends	270	259
Customer deposits	277	276
Regulatory liabilities	82	101
Other current liabilities	465	569
Total Current Liabilities	4,256	3,837
Long-term Debt	17,958	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,055	3,889
Investment tax credits	132	132
Accrued pension obligations	776	1,001
Asset retirement obligations	429	428
Regulatory liabilities	897	899
Other deferred credits and noncurrent liabilities	422	422
Total Deferred Credits and Other Noncurrent Liabilities	6,711	6,771
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	9,917	9,841
Earnings reinvested	3,962	3,829
Accumulated other comprehensive loss	(3,777)	(3,778)
Total Equity	10,109	9,899
Total Liabilities and Equity	\$ 39,034	\$ 38,315

(a) 1,560,000 shares authorized; 682,427 and 679,731 shares issued and outstanding at March 31, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	2,696		97			97
Stock-based compensation			(21)			(21)
Net income				403		403
Dividends and dividend equivalents				(270)		(270)
Other comprehensive income (loss)					1	1
March 31, 2017	<u>682,427</u>	<u>\$ 7</u>	<u>\$ 9,917</u>	<u>\$ 3,962</u>	<u>\$ (3,777)</u>	<u>\$ 10,109</u>
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	2,527		70			70
Stock-based compensation			(28)			(28)
Net income				481		481
Dividends and dividend equivalents				(256)		(256)
Other comprehensive income (loss)					(431)	(431)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
March 31, 2016	<u>676,384</u>	<u>\$ 7</u>	<u>\$ 9,729</u>	<u>\$ 3,185</u>	<u>\$ (3,159)</u>	<u>\$ 9,762</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareholders' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Operating Revenues	\$ 573	\$ 585
Operating Expenses		
Operation		
Energy purchases	146	167
Other operation and maintenance	164	150
Depreciation	75	59
Taxes, other than income	29	29
Total Operating Expenses	414	405
Operating Income	159	180
Other Income (Expense) - net	1	3
Interest Expense	33	33
Income Before Income Taxes	127	150
Income Taxes	48	56
Net Income (a)	\$ 79	\$ 94

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 79	\$ 94
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	75	59
Amortization	8	7
Defined benefit plans - expense	5	2
Deferred income taxes and investment tax credits	41	65
Other	—	(5)
Change in current assets and current liabilities		
Accounts receivable	(27)	(43)
Accounts payable	(18)	(2)
Unbilled revenue	12	5
Prepayments	(75)	(21)
Regulatory assets and liabilities	(11)	(21)
Taxes payable	—	(8)
Other	(14)	(12)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	5	3
Other liabilities	(1)	1
Net cash provided by operating activities	<u>55</u>	<u>124</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(274)	(214)
Expenditures for intangible assets	(2)	(1)
Net cash used in investing activities	<u>(276)</u>	<u>(215)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	—	224
Retirement of long-term debt	—	(224)
Contributions from parent	100	—
Payment of common stock dividends to parent	(76)	(45)
Net increase (decrease) in short-term debt	204	125
Other financing activities	—	(2)
Net cash provided by (used in) financing activities	<u>228</u>	<u>78</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7	(13)
Cash and Cash Equivalents at Beginning of Period	<u>13</u>	<u>47</u>
Cash and Cash Equivalents at End of Period	<u>\$ 20</u>	<u>\$ 34</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 122	\$ 115

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 20	\$ 13
Accounts receivable (less reserve: 2017, \$27; 2016, \$28)		
Customer	304	272
Other	16	21
Unbilled revenues	102	114
Materials and supplies	31	32
Prepayments	84	9
Regulatory assets	13	19
Other current assets	6	8
Total Current Assets	<u>576</u>	<u>488</u>
Property, Plant and Equipment		
Regulated utility plant	9,987	9,654
Less: accumulated depreciation - regulated utility plant	2,767	2,714
Regulated utility plant, net	<u>7,220</u>	<u>6,940</u>
Construction work in progress	557	641
Property, Plant and Equipment, net	<u>7,777</u>	<u>7,581</u>
Other Noncurrent Assets		
Regulatory assets	1,080	1,094
Intangibles	252	251
Other noncurrent assets	14	12
Total Other Noncurrent Assets	<u>1,346</u>	<u>1,357</u>
Total Assets	<u>\$ 9,699</u>	<u>\$ 9,426</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 499	\$ 295
Long-term debt due within one year	224	224
Accounts payable	329	367
Accounts payable to affiliates	58	42
Taxes	12	12
Interest	31	34
Regulatory liabilities	66	83
Other current liabilities	88	101
Total Current Liabilities	1,307	1,158
Long-term Debt	2,608	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,942	1,899
Accrued pension obligations	258	281
Other deferred credits and noncurrent liabilities	90	90
Total Deferred Credits and Other Noncurrent Liabilities	2,290	2,270
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,254	2,154
Earnings reinvested	876	873
Total Equity	3,494	3,391
Total Liabilities and Equity	\$ 9,699	\$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				79	79
Capital contributions from PPL			100		100
Dividends declared on common stock				(76)	(76)
March 31, 2017	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,254</u>	<u>\$ 876</u>	<u>\$ 3,494</u>
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				94	94
Dividends declared on common stock				(45)	(45)
March 31, 2016	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,934</u>	<u>\$ 870</u>	<u>\$ 3,168</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	31,	
	2017	2016
Operating Revenues	\$ 809	\$ 826
Operating Expenses		
Operation		
Fuel	191	198
Energy purchases	69	66
Other operation and maintenance	207	202
Depreciation	105	99
Taxes, other than income	16	15
Total Operating Expenses	588	580
Operating Income	221	246
Other Income (Expense) - net	(2)	(1)
Interest Expense	49	49
Interest Expense with Affiliate	4	4
Income Before Income Taxes	166	192
Income Taxes	63	72
Net Income (a)	\$ 103	\$ 120

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 103	\$ 120
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	105	99
Amortization	7	7
Defined benefit plans - expense	8	7
Deferred income taxes and investment tax credits	48	68
Change in current assets and current liabilities		
Accounts receivable	21	(15)
Accounts payable	(28)	25
Accounts payable to affiliates	7	5
Unbilled revenues	22	8
Fuel, materials and supplies	41	21
Taxes payable	(2)	(25)
Accrued interest	42	42
Other	(38)	(24)
Other operating activities		
Defined benefit plans - funding	(22)	(33)
Expenditures for asset retirement obligations	(6)	(2)
Other assets	1	—
Other liabilities	3	—
Net cash provided by operating activities	<u>312</u>	<u>303</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(184)	(219)
Net cash provided by (used in) investing activities	<u>(184)</u>	<u>(219)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(81)	93
Net increase (decrease) in short-term debt	58	(149)
Debt issuance and credit facility costs	(1)	(1)
Distributions to member	(102)	(29)
Net cash provided by (used in) financing activities	<u>(126)</u>	<u>(86)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2	(2)
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	<u>\$ 15</u>	<u>\$ 28</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$ 75	\$ 117
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	March 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 15	\$ 13
Accounts receivable (less reserve: 2017, \$24; 2016, \$24)		
Customer	215	235
Other	24	17
Unbilled revenues	148	170
Fuel, materials and supplies	256	297
Prepayments	25	24
Regulatory assets	23	20
Other current assets	7	4
Total Current Assets	713	780
Property, Plant and Equipment		
Regulated utility plant	12,810	12,746
Less: accumulated depreciation - regulated utility plant	1,550	1,465
Regulated utility plant, net	11,260	11,281
Construction work in progress	376	317
Property, Plant and Equipment, net	11,636	11,598
Other Noncurrent Assets		
Regulatory assets	828	824
Goodwill	996	996
Other intangibles	93	95
Other noncurrent assets	78	78
Total Other Noncurrent Assets	1,995	1,993
Total Assets	\$ 14,344	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	March 31, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 243	\$ 185
Long-term debt due within one year	94	194
Notes payable with affiliate	82	163
Accounts payable	204	251
Accounts payable to affiliates	13	6
Customer deposits	56	56
Taxes	37	39
Price risk management liabilities	4	4
Regulatory liabilities	16	18
Interest	74	32
Asset retirement obligations	58	60
Other current liabilities	88	119
Total Current Liabilities	969	1,127
Long-term Debt		
Long-term debt	4,572	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,972	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,786	1,735
Investment tax credits	131	132
Accrued pension obligations	332	350
Asset retirement obligations	374	373
Regulatory liabilities	897	899
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	188	190
Total Deferred Credits and Other Noncurrent Liabilities	3,733	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,670	4,667
Total Liabilities and Equity	\$ 14,344	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2016	\$ 4,667
Net income	103
Distributions to member	(102)
Other comprehensive income	2
March 31, 2017	<u>\$ 4,670</u>
December 31, 2015	\$ 4,517
Net income	120
Distributions to member	(29)
Other comprehensive income	1
March 31, 2016	<u>\$ 4,609</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March	
	31,	
	2017	2016
Operating Revenues		
Retail and wholesale	\$ 374	\$ 375
Electric revenue from affiliate	17	11
Total Operating Revenues	391	386
Operating Expenses		
Operation		
Fuel	80	78
Energy purchases	64	62
Energy purchases from affiliate	2	2
Other operation and maintenance	87	87
Depreciation	44	41
Taxes, other than income	8	8
Total Operating Expenses	285	278
Operating Income	106	108
Other Income (Expense) - net	(2)	—
Interest Expense	17	17
Income Before Income Taxes	87	91
Income Taxes	33	35
Net Income (a)	\$ 54	\$ 56

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 54	\$ 56
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	44	41
Amortization	3	3
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	31	37
Change in current assets and current liabilities		
Accounts receivable	13	(5)
Accounts receivable from affiliates	1	(4)
Accounts payable	(12)	5
Accounts payable to affiliates	(4)	—
Unbilled revenues	9	7
Fuel, materials and supplies	33	31
Taxes payable	(28)	(9)
Accrued interest	13	13
Other	(11)	(9)
Other operating activities		
Defined benefit plans - funding	(1)	(13)
Expenditures for asset retirement obligations	(4)	(1)
Other assets	2	—
Other liabilities	(3)	2
Net cash provided by operating activities	<u>142</u>	<u>157</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(94)	(109)
Net cash provided by (used in) investing activities	<u>(94)</u>	<u>(109)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	38	(60)
Debt issuance and credit facility costs	—	(1)
Payment of common stock dividends to parent	(87)	(25)
Contributions from parent	—	30
Net cash provided by (used in) financing activities	<u>(49)</u>	<u>(56)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1)	(8)
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	<u>\$ 4</u>	<u>\$ 11</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 34	\$ 77

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 4	\$ 5
Accounts receivable (less reserve: 2017, \$2; 2016, \$2)		
Customer	97	109
Other	10	11
Accounts receivable from affiliates	27	28
Unbilled revenues	66	75
Fuel, materials and supplies	110	143
Prepayments	12	12
Regulatory assets	12	9
Other current assets	2	1
Total Current Assets	340	393
Property, Plant and Equipment		
Regulated utility plant	5,396	5,357
Less: accumulated depreciation - regulated utility plant	534	498
Regulated utility plant, net	4,862	4,859
Construction work in progress	156	133
Property, Plant and Equipment, net	5,018	4,992
Other Noncurrent Assets		
Regulatory assets	448	450
Goodwill	389	389
Other intangibles	57	59
Other noncurrent assets	16	17
Total Other Noncurrent Assets	910	915
Total Assets	\$ 6,268	\$ 6,300

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 207	\$ 169
Long-term debt due within one year	94	194
Accounts payable	115	148
Accounts payable to affiliates	22	26
Customer deposits	27	27
Taxes	12	40
Price risk management liabilities	4	4
Regulatory liabilities	5	5
Interest	24	11
Asset retirement obligations	29	41
Other current liabilities	27	36
Total Current Liabilities	566	701
Long-term Debt	1,524	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,006	974
Investment tax credits	36	36
Accrued pension obligations	50	53
Asset retirement obligations	114	104
Regulatory liabilities	419	419
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	85	87
Total Deferred Credits and Other Noncurrent Liabilities	1,735	1,700
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	337	370
Total Equity	2,443	2,476
Total Liabilities and Equity	\$ 6,268	\$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				54	54
Cash dividends declared on common stock				(87)	(87)
March 31, 2017	21,294	\$ 424	\$ 1,682	\$ 337	\$ 2,443
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				56	56
Capital contributions from LKE			30		30
Cash dividends declared on common stock				(25)	(25)
March 31, 2016	21,294	\$ 424	\$ 1,641	\$ 326	\$ 2,391

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Operating Revenues		
Retail and wholesale	\$ 435	\$ 451
Electric revenue from affiliate	2	2
Total Operating Revenues	437	453
Operating Expenses		
Operation		
Fuel	111	120
Energy purchases	5	4
Energy purchases from affiliate	17	11
Other operation and maintenance	109	106
Depreciation	60	58
Taxes, other than income	8	7
Total Operating Expenses	310	306
Operating Income	127	147
Other Income (Expense) - net	(1)	(2)
Interest Expense	24	24
Income Before Income Taxes	102	121
Income Taxes	39	46
Net Income (a)	<u>\$ 63</u>	<u>\$ 75</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 63	\$ 75
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	60	58
Amortization	4	4
Defined benefit plans - expense	2	2
Deferred income taxes and investment tax credits	37	44
Change in current assets and current liabilities		
Accounts receivable	8	(8)
Accounts payable	(4)	23
Accounts payable to affiliates	(7)	2
Unbilled revenues	13	1
Fuel, materials and supplies	8	(10)
Taxes payable	(34)	(8)
Accrued interest	22	22
Other	(12)	1
Other operating activities		
Defined benefit plans - funding	(19)	(10)
Expenditures for asset retirement obligations	(2)	(1)
Other assets	(1)	—
Other liabilities	1	—
Net cash provided by operating activities	<u>139</u>	<u>195</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(89)	(110)
Net cash provided by (used in) investing activities	<u>(89)</u>	<u>(110)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	20	(14)
Debt issuance and credit facility costs	—	(1)
Payment of common stock dividends to parent	(70)	(64)
Net cash provided by (used in) financing activities	<u>(50)</u>	<u>(79)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	—	6
Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	<u>\$ 7</u>	<u>\$ 17</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 41	\$ 40

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 7	\$ 7
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	118	126
Other	13	5
Unbilled revenues	82	95
Fuel, materials and supplies	146	154
Prepayments	12	12
Regulatory assets	11	11
Other current assets	5	3
Total Current Assets	394	413
Property, Plant and Equipment		
Regulated utility plant	7,405	7,382
Less: accumulated depreciation - regulated utility plant	1,014	965
Regulated utility plant, net	6,391	6,417
Construction work in progress	219	181
Property, Plant and Equipment, net	6,610	6,598
Other Noncurrent Assets		
Regulatory assets	380	374
Goodwill	607	607
Other intangibles	36	36
Other noncurrent assets	59	57
Total Other Noncurrent Assets	1,082	1,074
Total Assets	\$ 8,086	\$ 8,085

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 36	\$ 16
Accounts payable	76	78
Accounts payable to affiliates	50	56
Customer deposits	29	29
Taxes	11	45
Regulatory liabilities	11	13
Interest	38	16
Asset retirement obligations	29	19
Other current liabilities	27	36
Total Current Liabilities	307	308
Long-term Debt		
	2,327	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,208	1,170
Investment tax credits	95	96
Accrued pension obligations	44	62
Asset retirement obligations	260	269
Regulatory liabilities	478	480
Other deferred credits and noncurrent liabilities	50	50
Total Deferred Credits and Other Noncurrent Liabilities	2,135	2,127
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	393	400
Total Equity	3,317	3,323
Total Liabilities and Equity	\$ 8,086	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				63		63
Cash dividends declared on common stock				(70)		(70)
Other comprehensive income					1	1
March 31, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 393</u>	<u>\$ —</u>	<u>\$ 3,317</u>
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Net income				75		75
Cash dividends declared on common stock				(64)		(64)
March 31, 2016	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,596</u>	<u>\$ 394</u>	<u>\$ —</u>	<u>\$ 3,298</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2016 is derived from that Registrant's 2016 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2016 Form 10-K. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2017 financial statements.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three months ended March 31, 2017 and 2016, PPL Electric purchased \$356 million and \$382 million of accounts receivable from alternative electricity suppliers.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended March 31 are as follows:

	Three Months	
	2017	2016
Income Statement Data		
Revenues from external customers		
U.K. Regulated	\$ 568	\$ 595
Kentucky Regulated	809	826
Pennsylvania Regulated	573	585
Corporate and Other	1	5
Total	\$ 1,951	\$ 2,011
Net Income		
U.K. Regulated (a)	\$ 286	\$ 289
Kentucky Regulated	95	112
Pennsylvania Regulated	79	94
Corporate and Other	(57)	(14)
Total	\$ 403	\$ 481

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	March 31,	December 31,
	2017	2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	\$ 15,039	\$ 14,537
Kentucky Regulated	14,010	14,037
Pennsylvania Regulated	9,699	9,426
Corporate and Other (b)	286	315
Total	\$ 39,034	\$ 38,315

(a) Includes \$10.9 billion and \$10.8 billion of net PP&E as of March 31, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	Three Months	
	2017	2016
Income (Numerator)		
Net income	\$ 403	\$ 481
Less amounts allocated to participating securities	1	2
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 402</u>	<u>\$ 479</u>
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	680,882	675,441
Add incremental non-participating securities:		
Share-based payment awards	2,202	3,376
Weighted-average shares - Diluted EPS	<u>683,084</u>	<u>678,817</u>
Basic EPS		
Net Income available to PPL common shareowners	\$ 0.59	\$ 0.71
Diluted EPS		
Net Income available to PPL common shareowners	\$ 0.59	\$ 0.71

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months	
	2017	2016
Stock-based compensation plans (a)	887	2,125
DRIP	445	402

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under the ATM Program.

For the periods ended March 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months	
	2017	2016
Stock options	696	696

5. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are as follows.

(PPL)

	Three Months	
	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 186	\$ 231
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	13	13
Valuation allowance adjustments	5	6
Impact of lower U.K. income tax rates	(48)	(54)
U.S. income tax on foreign earnings - net of foreign tax credit	(9)	(2)
Impact of the U.K. Finance Acts	(3)	—
Depreciation not normalized	(3)	(1)
Interest benefit on U.K. financing entities	(4)	(5)
Stock-based compensation	(3)	(8)
Other	(5)	(1)
Total increase (decrease)	(57)	(52)
Total income taxes	\$ 129	\$ 179

(PPL Electric)

	Three Months	
	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 44	\$ 53
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	8	9
Depreciation not normalized	(2)	(1)
Stock-based compensation	(2)	(5)
Total increase (decrease)	4	3
Total income taxes	\$ 48	\$ 56

(LKE)

	Three Months	
	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 58	\$ 67
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	6	7
Other	(1)	(2)
Total increase (decrease)	5	5
Total income taxes	\$ 63	\$ 72

(LG&E)

	Three Months	
	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 30	\$ 32
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	3	3
Total increase (decrease)	3	3
Total income taxes	\$ 33	\$ 35

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(KU)

	Three Months	
	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 36	\$ 42
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	4
Other	(1)	—
Total increase (decrease)	3	4
Total income taxes	\$ 39	\$ 46

6. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	\$ 6	\$ 6	\$ —	\$ —
Generation formula rate	11	11	—	—
Transmission service charge	—	7	—	7
Smart meter rider	8	6	8	6
Storm costs	4	5	4	5
Other	7	4	1	1
Total current regulatory assets (a)	\$ 36	\$ 39	\$ 13	\$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 936	\$ 947	\$ 543	\$ 549
Taxes recoverable through future rates	343	340	343	340
Storm costs	44	57	—	9
Unamortized loss on debt	58	61	34	36
Interest rate swaps	126	129	—	—
Accumulated cost of removal of utility plant	160	159	160	159
AROs	228	211	—	—
Other	13	14	—	1
Total noncurrent regulatory assets	\$ 1,908	\$ 1,918	\$ 1,080	\$ 1,094
Current Regulatory Liabilities:				
Generation supply charge	\$ 19	\$ 23	\$ 19	\$ 23
Transmission service charge	5	—	5	—
Demand side management	2	3	—	—
Universal service rider	14	14	14	14
Transmission formula rate	6	15	6	15
Fuel adjustment clause	13	11	—	—
Act 129 compliance rider	16	17	16	17
Storm damage expense	5	13	5	13
Other	2	5	1	1
Total current regulatory liabilities	\$ 82	\$ 101	\$ 66	\$ 83

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	PPL		PPL Electric			
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016		
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 701	\$ 700	\$ —	\$ —		
Power purchase agreement - OVEC (b)	74	75	—	—		
Net deferred tax assets	22	23	—	—		
Defined benefit plans	23	23	—	—		
Interest rate swaps	76	78	—	—		
Other	1	—	—	—		
Total noncurrent regulatory liabilities	\$ 897	\$ 899	\$ —	\$ —		
	LKE		LG&E		KU	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	\$ 6	\$ 6	\$ 6	\$ 6	\$ —	\$ —
Generation formula rate	11	11	—	—	11	11
Other	6	3	6	3	—	—
Total current regulatory assets	\$ 23	\$ 20	\$ 12	\$ 9	\$ 11	\$ 11
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 393	\$ 398	\$ 242	\$ 246	\$ 151	\$ 152
Storm costs	44	48	24	26	20	22
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	126	129	86	88	40	41
AROs	228	211	77	70	151	141
Plant retirement costs	3	4	—	—	3	4
Other	10	9	4	4	6	5
Total noncurrent regulatory assets	\$ 828	\$ 824	\$ 448	\$ 450	\$ 380	\$ 374
Current Regulatory Liabilities:						
Demand side management	\$ 2	\$ 3	\$ 1	\$ 2	\$ 1	\$ 1
Fuel adjustment clause	13	11	4	2	9	9
Other	1	4	—	1	1	3
Total current regulatory liabilities	\$ 16	\$ 18	\$ 5	\$ 5	\$ 11	\$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 701	\$ 700	\$ 308	\$ 305	\$ 393	\$ 395
Power purchase agreement - OVEC (b)	74	75	51	52	23	23
Net deferred tax assets	22	23	22	23	—	—
Defined benefit plans	23	23	—	—	23	23
Interest rate swaps	76	78	38	39	38	39
Other	1	—	—	—	1	—
Total noncurrent regulatory liabilities	\$ 897	\$ 899	\$ 419	\$ 419	\$ 478	\$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities

Rate Case Proceedings (PPL, LKE, LG&E and KU)

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provide for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, and the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System. The proposed stipulations would result in a base electricity rate increase of 3.4% at KU and base electricity and gas rate increases of 5.4% and 2.3% at LG&E. The proposed stipulations remain subject to KPSC approval. If approved, new rates and all elements of the stipulations would be effective July 1, 2017. A public hearing on the applications is scheduled to commence on May 9, 2017. LG&E and KU cannot predict the outcome of these proceedings.

Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee shall revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E, and, in November 2016 filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

Pennsylvania Activities (PPL and PPL Electric)

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In January 2016, PPL Electric and the other parties to the case reached a settlement of all major issues and filed that settlement with the Administrative Law Judge. In June 2016, the PUC issued a final order approving PPL Electric's Phase III Plan as modified by the settlement, allowing PPL Electric to recover, through the Act 129 compliance rider, a maximum \$313 million in program cost over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20

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years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

PPL Electric has received PUC approval of its biannual DSP procurement plans for all prior periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. The parties to the proceeding reached a settlement on all but one issue and a partial settlement agreement and briefs on the open issue were submitted to the Administrative Law Judge (ALJ) in July 2016. In August 2016, the ALJ issued an initial decision, and certain parties filed exceptions and reply exceptions. In October 2016, the PUC issued an order approving the partial settlement agreement and adopting the initial decision with minor modifications. In November 2016, Retail Electric Supply Association (RESA) filed a Petition for Reconsideration of the portion of the October 2016 order that approved the Customer Assistance Program Standard Offer Referral Program (CAP-SOP). In January 2017, the PUC issued an order denying RESA's Petition for Reconsideration and closing the record. In February 2017, RESA filed a Petition for Review with the Commonwealth Court of Pennsylvania regarding the CAP-SOP. This matter remains pending before the court.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	March 31, 2017				December 31, 2016			
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued		
PPL									
U.K.									
WPD plc									
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 161	£ —	£ 49	£ 160	£ —		
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—		
WPD (South West)									
Syndicated Credit Facility (c)	July 2021	245	72	—	173	110	—		
WPD (East Midlands)									
Syndicated Credit Facility (d)	July 2021	300	128	—	172	9	—		
WPD (West Midlands)									
Syndicated Credit Facility	July 2021	300	—	—	300	—	—		
Uncommitted Credit Facilities (e)		90	—	4	86	60	4		
Total U.K. Credit Facilities (f)		£ 1,375	£ 591	£ 4	£ 780	£ 339	£ 4		
U.S.									
PPL Capital Funding									
Syndicated Credit Facility	Jan. 2022	\$ 950	\$ —	\$ 189	\$ 761	\$ —	\$ 20		
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—		
Bilateral Credit Facility	Mar. 2018	150	—	17	133	—	17		
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$ —	\$ 206	\$ 1,194	\$ —	\$ 37		

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	March 31, 2017					December 31, 2016		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL Electric								
Syndicated Credit Facility	Jan. 2022	\$ 650	\$ —	\$ 500	\$ 150	\$ —	\$ 296	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2022	\$ 500	\$ —	\$ 207	\$ 293	\$ —	\$ 169	
KU								
Syndicated Credit Facility	Jan. 2022	\$ 400	\$ —	\$ 36	\$ 364	\$ —	\$ 16	
Letter of Credit Facility	Oct. 2017	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 234	\$ 364	\$ —	\$ 214	

- (a) The amounts borrowed at March 31, 2017 and December 31, 2016 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 1.61% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £161 million as of the date borrowed.
- (b) The amount borrowed at March 31, 2017 was a GBP-denominated borrowing which equated to \$286 million and bore interest at 1.51%.
- (c) The amounts borrowed at March 31, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$90 million and \$137 million and bore interest at 0.66% for both periods.
- (d) The amounts borrowed at March 31, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$159 million and \$11 million and bore interest at 0.66% for both periods.
- (e) The amount borrowed at December 31, 2016 was a GBP-denominated borrowing which equated to \$75 million and bore interest at 1.26%.
- (f) At March 31, 2017, the unused capacity under the U.K. credit facilities was \$972 million.

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	March 31, 2017				December 31, 2016		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances	
PPL Capital Funding	1.25%	\$ 1,000	\$ 189	\$ 811	1.10%	\$ 20	
PPL Electric	1.26%	650	499	151	1.05%	295	
LG&E	1.19%	350	207	143	0.94%	169	
KU	1.18%	350	36	314	0.87%	16	
Total		\$ 2,350	\$ 931	\$ 1,419		\$ 500	

(LKE)

See Note 10 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds will be used for general corporate purposes.

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(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended March 31, PPL issued the following:

	Three Months	
	2017	2016
Number of shares (in thousands)	1,364	—
Average share price	\$ 36.66	\$ —
Net Proceeds	\$ 50	\$ —

Distributions

In February 2017, PPL declared a quarterly common stock dividend, payable April 3, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries and LG&E for the periods ended March 31:

	Pension Benefits			
	Three Months			
	U.S.		U.K.	
	2017	2016	2017	2016
PPL				
Service cost	\$ 17	\$ 17	\$ 19	\$ 18
Interest cost	42	43	43	62
Expected return on plan assets	(57)	(56)	(125)	(133)
Amortization of:				
Prior service cost	2	1	—	—
Actuarial loss	20	15	35	37
Net periodic defined benefit costs (credits) before special termination benefits	24	20	(28)	(16)
Special termination benefits (a)	2	—	—	—
Net periodic defined benefit costs (credits)	\$ 26	\$ 20	\$ (28)	\$ (16)

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

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	Pension Benefits	
	Three Months	
	2017	2016
<u>LKE</u>		
Service cost	\$ 7	\$ 6
Interest cost	16	17
Expected return on plan assets	(22)	(21)
Amortization of:		
Prior service cost	2	1
Actuarial loss	11	5
Net periodic defined benefit costs	<u>\$ 14</u>	<u>\$ 8</u>

<u>LG&E</u>		
Interest cost	\$ 3	\$ 3
Expected return on plan assets	(5)	(5)
Amortization of:		
Prior service cost	1	1
Actuarial loss	3	2
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 1</u>

	Other Postretirement Benefits	
	Three Months	
	2017	2016
<u>PPL</u>		
Service cost	\$ 2	\$ 2
Interest cost	6	6
Expected return on plan assets	(6)	(5)
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 3</u>

<u>LKE</u>		
Service cost	\$ 1	\$ 1
Interest cost	2	2
Expected return on plan assets	(1)	(2)
Amortization of prior service cost	—	1
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 2</u>

(PPL Electric, LG&E and KU)

In addition to the specific plans it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months	
	2017	2016
PPL Electric	\$ 8	\$ 6
LG&E	3	2
KU	4	3

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the three months ended March 31, 2017, WPD contributed \$462 million to its U.K. pension plans. WPD made additional contributions in the second quarter of 2017 of \$23 million. These accelerated contributions fund all 2017 required contributions and a portion of 2018 required contributions. WPD does not expect to make additional contributions in 2017.

9. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

Cane Run Environmental Claims *(PPL, LKE and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

E.W. Brown Environmental Claims *(PPL, LKE and KU)*

In October 2015, KU received a notice of intent from Earthjustice and the Sierra Club informing certain federal and state agencies of the Sierra Club's intent to file a citizen suit, following expiration of the mandatory 60-day notification period, for alleged violations of the Clean Water Act. The claimants allege discharges at the E.W. Brown plant in violation of applicable rules and the plant's water discharge permit. The claimants assert that, unless the alleged discharges are promptly brought into compliance, it intends to seek civil penalties, injunctive relief and attorney's fees. In November 2015, the claimants submitted an amended notice of intent to add the Kentucky Waterways Alliance as a claimant. In October 2016, the claimants submitted an additional notice of intent alleging management of waste in a manner that may present an imminent and substantial endangerment under the RCRA. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

Trimble County Water Discharge Permit *(PPL, LKE, LG&E and KU)*

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010,

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which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any, but do not expect such costs to be material.

Regulatory Issues *(All Registrants)*

See Note 6 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

Federal environmental regulations of these criteria pollutants require states to adopt implementation plans, known as state implementation plans, for certain pollutants, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and the EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, worked together to evaluate the need for further nitrogen oxide reductions from fossil-fueled plants with SCRs. Based on regulatory developments to date, PPL, LKE, LG&E and KU do not anticipate requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Based on regulatory developments to date, PPL, LKE, LG&E and KU expect that certain previously required compliance measures, such as upgraded or new sulfur dioxide Scrubbers and additional sulfur dioxide limits at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, are sufficient to achieve compliance with the new sulfur dioxide and ozone standards.

Mercury and Air Toxics Standards (MATS)

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. In a subsequent judicial challenge, the U.S. Supreme Court held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The U.S. Supreme Court remanded the matter to the D.C. Circuit Court which, in December 2015, remanded the rule to the EPA without vacating it. The EPA has proposed a supplemental finding regarding costs of the rule. The EPA's MATS rule remains in effect during the pendency of the ongoing proceedings.

LG&E and KU have installed significant controls in response to the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded Scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU have received KPSC approval for a compliance plan providing for installation of additional MATS-related controls; however, the estimated cost of these controls is not expected to be significant for either LG&E or KU.

New Source Review (NSR)

The NSR litigation brought by the EPA, states and environmental groups against coal-fired generating plants in past years continues to proceed through the courts. Although none of this litigation directly involves PPL, LKE, LG&E or KU, it can influence the permitting of large capital projects at LG&E's and KU's power plants, the costs of which cannot presently be determined but could be significant.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, the President announced that the United States, Canada and Mexico have established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of greenhouse gas (GHG) emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. The March 2017 Executive Order directed the EPA to review proposed and final rules relating to greenhouse gas reductions for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. Additionally, the March 2017 Executive Order directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. On February 9, 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new natural gas-fired plants could have a significant industry-wide impact.

The President's March 2017 Executive Order requires the EPA to review the rules for new and existing power plants and suspend, revise or rescind them as appropriate.

The EPA's Clean Power Plan

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to

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the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan is ultimately upheld and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. In light of the President's March 2017 Executive Order the next steps in this litigation are unclear. Additionally, the EPA has commenced review of the Clean Power Plan and related actions, as directed by the President's March 2017 Executive Order, to determine whether various rules should be suspended, revised or rescinded. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. Kentucky is close to finalizing a state rule aimed at reflecting the requirements of the federal rule.

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LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, LG&E and KU also received KPSC approval for their plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015 and 2016. See Note 19 in the Registrants' 2016 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonable possible losses cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Waters of the United States (WOTUS)

The U.S. Court of Appeals for the Sixth Circuit has issued a stay of the EPA's rule on the definition of WOTUS pending the court's review of the rule. The effect of the stay is that the WOTUS rule is not in effect anywhere. On February 28, 2017, the President issued an Executive Order directing the EPA and the U.S. Army Corps of Engineers to review the rule for consistency with certain policy directives and rescind or revise it as appropriate. Additionally, the Executive Order directs the agencies to interpret certain jurisdictional provisions in a manner consistent with specified U.S. Supreme Court precedent. The ultimate outcome of the pending judicial and regulatory reviews of the rule remains uncertain. Because of the strict permitting programs already in place in Kentucky and Pennsylvania, the Registrants do not expect the rule to have a significant impact on their operations.

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Other Issues

On June 22, 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation *(All Registrants)*

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack information on the condition of such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At March 31, 2017 and December 31, 2016, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

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Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and is effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of March 31, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at March 31, 2017 and December 31, 2016 was \$22 million for PPL and \$17 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at</u> <u>March 31, 2017</u>		<u>Expiration</u> <u>Date</u>
<u>PPL</u>			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	105	(c)	
<u>PPL Electric</u>			
Guarantee of inventory value	17	(d)	2018
<u>LKE</u>			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023
<u>LG&E and KU</u>			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

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- In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
 - (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
 - (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
 - (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$120 million at March 31, 2017, consisting of LG&E's share of \$83 million and KU's share of \$37 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

10. Related Party Transactions

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other, as applicable, with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended March 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months	
	2017	2016
PPL Electric from PPL Services	\$ 51	\$ 37
LKE from PPL Services	6	5
PPL Electric from PPL EU Services	18	17
LG&E from LKS	44	47
KU from LKS	44	56

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2017 and December 31, 2016, \$82 million and \$163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at March 31, 2017 and December 31, 2016 were 2.29% and 2.12%.

In November 2015, LKE entered into a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At March 31, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was not significant at March 31, 2017 and 2016.

Other (PPL Electric, LG&E and KU)

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three months ended March 31, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	March 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 409	\$ 409	\$ —	\$ —	\$ 341	\$ 341	\$ —	\$ —
Restricted cash and cash equivalents (a)	25	25	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	200	—	200	—	211	—	211	—
Cross-currency swaps	179	—	179	—	188	—	188	—
Total price risk management assets	379	—	379	—	399	—	399	—
Total assets	\$ 813	\$ 434	\$ 379	\$ —	\$ 766	\$ 367	\$ 399	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Foreign currency contracts	50	—	50	—	27	—	27	—
Total price risk management liabilities	\$ 79	\$ —	\$ 79	\$ —	\$ 58	\$ —	\$ 58	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 22	\$ 22	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 15	\$ 15	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Cash collateral posted to counterparties (c)	2	2	—	—	3	3	—	—
Total assets	\$ 17	\$ 17	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 4	\$ 4	\$ —	\$ —	\$ 5	\$ 5	\$ —	\$ —
Cash collateral posted to counterparties (c)	2	2	—	—	3	3	—	—
Total assets	\$ 6	\$ 6	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —

	March 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 7	\$ 7	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —
Total assets	\$ 7	\$ 7	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
- (c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 18,375	\$ 21,646	\$ 18,326	\$ 21,355
PPL Electric	2,832	3,141	2,831	3,148
LKE	5,066	5,472	5,065	5,439
LG&E	1,618	1,720	1,617	1,710
KU	2,327	2,532	2,327	2,514

- (a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed

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to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

Commodity price risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

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- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of LG&E, KU or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$13 million obligation to return cash collateral under master netting arrangements at March 31, 2017 and a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at March 31, 2017 and December 31, 2016.

PPL, LKE and LG&E posted \$2 million of cash collateral under master netting arrangements at March 31, 2017 and \$3 million of cash collateral under master netting arrangements at December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at March 31, 2017.

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For the three months ended March 31, 2017 and 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At March 31, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three months ended March 31, 2017 and 2016, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At March 31, 2017, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At March 31, 2017, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no such contracts outstanding at March 31, 2017.

At March 31, 2017 and December 31, 2016, PPL had \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2017, the total exposure hedged by PPL was approximately £2.8 billion (approximately \$3.8 billion based on contracted rates). These contracts had termination dates ranging from April 2017 through December 2019.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts.

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Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2017 and December 31, 2016.

See Notes 1 and 17 in each Registrant's 2016 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	32	—	—	—	32	—	—	—
Foreign currency contracts	—	—	63	43	—	—	31	21
Total current	32	—	63	47	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	25	—	—	—	27
Cross-currency swaps (b)	147	—	—	—	156	—	—	—
Foreign currency contracts	—	—	137	7	—	—	180	6
Total noncurrent	147	—	137	32	156	—	180	33
Total derivatives	\$ 179	\$ —	\$ 200	\$ 79	\$ 188	\$ —	\$ 211	\$ 58

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended March 31, 2017.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest expense	\$ (2)	\$ (1)
Cross-currency swaps	(8)	Interest expense	1	—
		Other income (expense) - net	3	—
Total	\$ (8)		\$ 2	\$ (1)
Net Investment Hedges:				
Foreign currency contracts	\$ —			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ (43)
Interest rate swaps	Interest expense	(2)
	Total	\$ (45)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 2

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended March 31, 2016.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ (18)	Interest expense	\$ (1)	\$ —
Cross-currency swaps	113	Interest expense	1	—
		Other income (expense) - net	97	—
Total	\$ 95		\$ 97	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 3			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ 60
Interest rate swaps	Interest expense	(2)
	Total	\$ 58

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (6)

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(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	March 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	25	—	27
Total noncurrent	—	25	—	27
Total derivatives	\$ —	\$ 29	\$ —	\$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended March 31, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Income on Derivatives	Three Months
Interest rate swaps	Interest expense	\$ (2)

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Regulatory Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 2

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended March 31, 2016.

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Income on Derivatives	Three Months
Interest rate swaps	Interest expense	\$ (2)

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Regulatory Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (6)

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
March 31, 2017								
Treasury Derivatives								
PPL	\$ 379	\$ 49	\$ 13	\$ 317	\$ 79	\$ 49	\$ 2	\$ 28
LKE	—	—	—	—	29	—	2	27
LG&E	—	—	—	—	29	—	2	27
December 31, 2016								
Treasury Derivatives								
PPL	\$ 399	\$ 27	\$ 19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At March 31, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 12	\$ 12	\$ 12
Aggregate fair value of collateral posted on these derivative instruments	2	2	2
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	10	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the three months ended March 31, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the three months ended March 31, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2016	\$ 488	\$ 433	\$ 145	\$ 288
Accretion	5	5	2	3
Obligations settled	(6)	(6)	(4)	(2)
Balance at March 31, 2017	<u>\$ 487</u>	<u>\$ 432</u>	<u>\$ 143</u>	<u>\$ 289</u>

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

16. Accumulated Other Comprehensive Income (Loss)

(PPL)

The after-tax changes in AOCI by component for the periods ended March 31 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	(24)	(6)	—	—	—	(30)
Reclassifications from AOCI	—	(1)	—	—	32	31
Net OCI during the period	(24)	(7)	—	—	32	1
March 31, 2017	<u>\$ (1,651)</u>	<u>\$ (14)</u>	<u>\$ (1)</u>	<u>\$ (8)</u>	<u>\$ (2,103)</u>	<u>\$ (3,777)</u>
December 31, 2015						
Amounts arising during the period	(464)	80	—	—	—	(384)
Reclassifications from AOCI	—	(78)	—	—	31	(47)
Net OCI during the period	(464)	2	—	—	31	(431)
March 31, 2016	<u>\$ (984)</u>	<u>\$ (5)</u>	<u>\$ —</u>	<u>\$ (6)</u>	<u>\$ (2,164)</u>	<u>\$ (3,159)</u>

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended March 31. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during

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the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

Details about AOCI	Three Months		Affected Line Item on the Statements of Income
	2017	2016	
Qualifying derivatives			
Interest rate swaps	\$ (3)	\$ (1)	Interest Expense
Cross-currency swaps	3	97	Other Income (Expense) - net
	1	1	Interest Expense
Total Pre-tax	1	97	
Income Taxes	—	(19)	
Total After-tax	1	78	
Defined benefit plans			
Net actuarial loss	(41)	(40)	
Total Pre-tax	(41)	(40)	
Income Taxes	9	9	
Total After-tax	(32)	(31)	
Total reclassifications during the period	\$ (31)	\$ 47	

17. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018.

The Registrants have performed an assessment of a significant portion of their revenue under this new guidance to determine its effect on their current revenue recognition policies, and at this time they do not believe it will have a material impact. However, the Registrants will continue to monitor the development of industry specific application guidance which could have an impact on their assessments. The Registrants are currently assessing the disclosure requirements included in the standard, which will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Registrants will determine the transition method they will apply after the industry specific application guidance is final and the implications of using either the full retrospective or modified retrospective transition methods are known.

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

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The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance in annual reporting periods beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and will adopt this guidance effective January 1, 2018.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2016 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2017 with the same period in 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

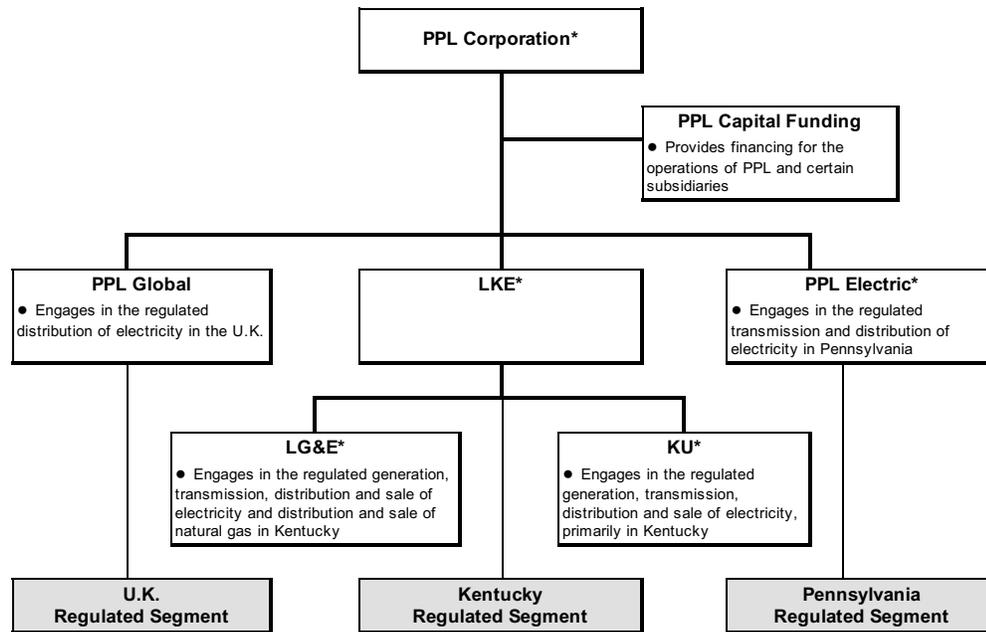
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).



PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. Although PPL Global is not a Registrant, unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and the Tennessee Regulatory Authority, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL is a fully regulated business consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base and RAV, as applicable, driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital outlay to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth after 2017. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2016 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and efficiency of operations.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to the Registrants' financial condition or results of operations. The Registrants are working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the negotiation of the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of April 20, 2017, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2017 at an average rate of \$1.21 per GBP and 99% hedged for 2018 and 2019 at an average rate of \$1.41 and \$1.32 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs, ELGs, and MATS. See Note 9 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$103 million at KU and an increase in annual base electricity and gas rates of approximately \$94 million and \$14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%.

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On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provide for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, and the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System. The proposed stipulations would result in a base electricity rate increase of 3.4% at KU and base electricity and gas rate increases of 5.4% and 2.3% at LG&E. The proposed stipulations remain subject to KPSC approval. If approved, new rates and all elements of the stipulations would be effective July 1, 2017. A public hearing on the applications is scheduled to commence on May 9, 2017. LG&E and KU cannot predict the outcome of these proceedings.

(PPL, LKE and KU)

On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. On December 30, 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2017 with the same period in 2016. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU.

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income comparing the three months ended March 31, 2017 with the same period in 2016. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2017	2016	\$ Change
Operating Revenues	\$ 1,951	\$ 2,011	\$ (60)
Operating Expenses			
Operation			
Fuel	191	197	(6)
Energy purchases	215	233	(18)
Other operation and maintenance	432	450	(18)
Depreciation	242	229	13
Taxes, other than income	75	79	(4)
Total Operating Expenses	1,155	1,188	(33)
Other Income (Expense) - net	(47)	61	(108)
Interest Expense	217	224	(7)
Income Taxes	129	179	(50)
Net Income	\$ 403	\$ 481	\$ (78)

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Domestic:	
PPL Electric Distribution price (a)	\$ 12
PPL Electric Distribution volume	(3)
PPL Electric PLR Revenue (b)	(21)
PPL Electric Transmission Formula Rate	1
LKE Volumes	(37)
LKE Fuel and other energy prices (c)	11
LKE DSM	5
Other	(1)
Total Domestic	(33)
U.K.:	
Price	58
Volume	9
Foreign currency exchange rates	(96)
Other	2
Total U.K.	(27)
Total	\$ (60)

- (a) Distribution rider prices resulted in increases of \$12 million for the three months ended March 31, 2017.
 (b) Decreased primarily due to lower energy purchase prices at PPL Electric.
 (c) Increased due to higher recoveries of fuel and energy purchases primarily as a result of higher commodity costs at LKE.

Energy Purchases

Energy purchases decreased \$18 million for the three months ended March 31, 2017 compared with 2016, primarily due to a \$23 million decrease in PLR prices, partially offset by a \$3 million increase in PLR volumes at PPL Electric.

[Table of Contents](#)**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Domestic:	
PPL Electric Act 129	\$ 5
PPL Electric payroll-related costs	2
PPL Electric bad debts	(3)
Stock compensation expense	6
Other	5
U.K.:	
Network maintenance	(7)
Foreign currency exchange rates	(8)
Pension (a)	(17)
Other	(1)
Total	\$ (18)

(a) The decrease was primarily due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

Depreciation

Depreciation increased \$13 million for the three months ended March 31, 2017 compared with 2016, primarily due to additional assets placed into service, net of retirements, partially offset by the impact of foreign currency exchange rates at WPD.

Other Income (Expense) - net

Other income (expense) - net decreased \$108 million for the three months ended March 31, 2017 compared with 2016, primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Long-term debt interest expense	\$ 4
Foreign currency exchange rates	(15)
Other	4
Total	\$ (7)

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Change in pre-tax income at current period tax rates	\$ (39)
U.S. income tax on foreign earnings - net of foreign tax credit	(7)
Impact of U.K. Finance Acts	(3)
Depreciation not normalized	(2)
Stock-based compensation	5
Other	(4)
Total	\$ (50)

Segment Earnings

PPL's net income by reportable segments for the periods ended March 31 were as follows:

	Three Months		
	2017	2016	\$ Change
U.K. Regulated	\$ 286	\$ 289	\$ (3)
Kentucky Regulated	95	112	(17)
Pennsylvania Regulated	79	94	(15)
Corporate and Other (a)	(57)	(14)	(43)
Net Income	<u>\$ 403</u>	<u>\$ 481</u>	<u>\$ (78)</u>

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The change in 2017 compared with 2016 is primarily due to the utilization of an estimated annual effective tax rate, which requires the tax benefits realized in the current period to be recognized over the annual period. This impact is expected to reverse through the remainder of the year.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency-related economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 13 to the Financial Statements and "Risk Management" below for additional information on foreign currency-related economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended March 31 were as follows:

	Three Months		
	2017	2016	\$ Change
U.K. Regulated	\$ 307	\$ 265	\$ 42
Kentucky Regulated	96	112	(16)
Pennsylvania Regulated	79	94	(15)
Corporate and Other	(57)	(13)	(44)
Earnings from Ongoing Operations	<u>\$ 425</u>	<u>\$ 458</u>	<u>\$ (33)</u>

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

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U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 71% of PPL's Net Income for the three months ended March 31, 2017 and 39% of PPL's assets at March 31, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2017	2016	\$ Change
Operating revenues	\$ 568	\$ 595	\$ (27)
Other operation and maintenance	64	97	(33)
Depreciation	55	60	(5)
Taxes, other than income	31	35	(4)
Total operating expenses	150	192	(42)
Other Income (Expense) - net	(43)	61	(104)
Interest Expense	94	106	(12)
Income Taxes	(5)	69	(74)
Net Income	286	289	(3)
Less: Special Items	(21)	24	(45)
Earnings from Ongoing Operations	\$ 307	\$ 265	\$ 42

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2017	2016
Foreign currency-related economic hedges, net of tax of \$12, (\$13) (a)	Other Income (Expense) - net	\$ (21)	\$ 24
Total Special Items		\$ (21)	\$ 24

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	Three Months	
	2017	2016
U.K.		
Gross margins	\$ 70	24
Other operation and maintenance		(5)
Depreciation		(2)
Interest expense		(2)
Other		(5)
Income taxes		(1)
U.S.		
Interest expense and other		34
Income taxes		(71)
Foreign currency exchange, after-tax		42
Earnings from Ongoing Operations		(45)
Special items, after-tax		(3)
Net Income	\$	(3)

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U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense primarily due to \$17 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate and \$7 million from lower network maintenance expense.
- Higher income taxes primarily due to an increase of \$17 million from higher pre-tax income partially offset by a decrease of \$10 million primarily related to accelerated tax deductions.

U.S.

- Lower income taxes primarily due to the tax benefit on accelerated pension contributions made in the first quarter of 2017.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 24% of PPL's Net Income for the three months ended March 31, 2017 and 36% of PPL's assets at March 31, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2017	2016	\$ Change
Operating revenues	\$ 809	\$ 826	\$ (17)
Fuel	191	198	(7)
Energy purchases	69	66	3
Other operation and maintenance	207	202	5
Depreciation	105	99	6
Taxes, other than income	16	15	1
Total operating expenses	588	580	8
Other Income (Expense) - net	(2)	(1)	(1)
Interest Expense	65	65	—
Income Taxes	59	68	(9)
Net Income	95	112	(17)
Less: Special Items	(1)	—	(1)
Earnings from Ongoing Operations	\$ 96	\$ 112	\$ (16)

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2017	2016
Adjustment to investment, net of tax of \$0, \$0 (a)	Other Income (Expense) - net	\$ (1)	\$ —
Total Special Items		\$ (1)	\$ —

(a) KU recorded a write-off of an equity method investment.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months
Kentucky Gross Margins	\$ (18)
Other operation and maintenance	(3)
Depreciation	(2)
Taxes, other than income	(2)
Income Taxes	9
Earnings from Ongoing Operations	(16)
Special items, after-tax	(1)
Net Income	\$ (17)

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Lower income taxes primarily due to lower pre-tax income.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 20% of PPL's Net Income for the three months ended March 31, 2017 and 25% of PPL's assets at March 31, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2017	2016	\$ Change
Operating revenues	\$ 573	\$ 585	\$ (12)
Energy purchases	146	167	(21)
Other operation and maintenance	164	150	14
Depreciation	75	59	16
Taxes, other than income	29	29	—
Total operating expenses	414	405	9
Other Income (Expense) - net	1	3	(2)
Interest Expense	33	33	—
Income Taxes	48	56	(8)
Net Income	79	94	(15)
Less: Special Items (a)	—	—	—
Earnings from Ongoing Operations	\$ 79	\$ 94	\$ (15)

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Gross Margins	\$ 1
Other operation and maintenance	(10)
Depreciation	(12)
Other Income (Expense) - net	(2)
Income Taxes	8
Net Income	\$ (15)

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.
- Higher other operation and maintenance expense primarily due to \$8 million of higher corporate service costs allocated to PPL Electric.

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- Higher depreciation expense primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.
- Lower income taxes primarily due to lower pre-tax income.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended March 31.

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 286	\$ 95	\$ 79	\$ (57)	\$ 403
Less: Special Items (expense) benefit:					
Foreign currency-related economic hedges, net of tax of \$12	(21)	—	—	—	(21)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(21)	(1)	—	—	(22)
Earnings from Ongoing Operations	\$ 307	\$ 96	\$ 79	\$ (57)	\$ 425

	2016 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 289	\$ 112	\$ 94	\$ (14)	\$ 481
Less: Special Items (expense) benefit:					
Foreign currency-related economic hedges, net of tax of (\$13)	24	—	—	—	24
Spinoff of the Supply segment, net of tax of \$1	—	—	—	(1)	(1)
Total Special Items	24	—	—	(1)	23
Earnings from Ongoing Operations	\$ 265	\$ 112	\$ 94	\$ (13)	\$ 458

Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily

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related to the Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

The following table shows Margins by PPL's reportable segment and by component, as applicable, for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months		
	2017	2016	\$ Change
U.K. Regulated			
U.K. Gross Margins	\$ 536	\$ 557	\$ (21)
Impact of changes in foreign currency exchange rates			(91)
U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ 70
Kentucky Regulated			
Kentucky Gross Margins			
LG&E	\$ 226	\$ 228	\$ (2)
KU	281	297	(16)
Total Kentucky Gross Margins	\$ 507	\$ 525	\$ (18)
Pennsylvania Regulated			
Pennsylvania Gross Margins			
Distribution	\$ 258	\$ 258	\$ —
Transmission	108	107	1
Total Pennsylvania Gross Margins	\$ 366	\$ 365	\$ 1

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased primarily due to \$58 million from the April 1, 2016 price increase, which includes \$14 million of the recovery of prior customer rebates, and \$9 million of higher volumes.

Kentucky Gross Margins

Kentucky Gross Margins decreased primarily due to \$22 million of lower electricity sales volumes driven by milder weather in the first quarter of 2017 (\$5 million at LG&E and \$17 million at KU).

Pennsylvania Gross Margins

Pennsylvania Gross Margins increased primarily due to an increase of \$11 million primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$10 million decrease as a result of a lower peak transmission system load in 2016 which negatively affected transmission revenue for the first quarter of 2017.

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Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended March 31.

	2017 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 559 (c)	\$ 809	\$ 573	\$ 10	\$ 1,951
Operating Expenses					
Fuel	—	191	—	—	191
Energy purchases	—	69	146	—	215
Other operation and maintenance	23	26	29	354	432
Depreciation	—	16	4	222	242
Taxes, other than income	—	—	28	47	75
Total Operating Expenses	23	302	207	623	1,155
Total	\$ 536	\$ 507	\$ 366	\$ (613)	\$ 796

	2016 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 584 (c)	\$ 826	\$ 585	\$ 16	\$ 2,011
Operating Expenses					
Fuel	—	198	—	(1)	197
Energy purchases	—	66	167	—	233
Other operation and maintenance	27	24	25	374	450
Depreciation	—	12	—	217	229
Taxes, other than income	—	1	28	50	79
Total Operating Expenses	27	301	220	640	1,188
Total	\$ 557	\$ 525	\$ 365	\$ (624)	\$ 823

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$9 million and \$11 million for the three months ended March 31, 2017 and 2016.

2017 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2017 compared with 2016 due to a lower assumed GBP exchange rate in 2017, lower incentive revenues, higher interest expense and higher depreciation expense, partially offset by lower operation and maintenance expense, including pension expense, and higher revenues from the April 1, 2017 price increase.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Relatively flat net income is projected in 2017 compared with 2016 primarily driven by electricity and gas base rate increases, offset by higher operation and maintenance expense and higher depreciation expense.

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(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016 primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense, higher interest expense and higher income taxes.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 9 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2016 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2017	2016	\$ Change
Operating Revenues	\$ 573	\$ 585	\$ (12)
Operating Expenses			
Operation			
Energy purchases	146	167	(21)
Other operation and maintenance	164	150	14
Depreciation	75	59	16
Taxes, other than income	29	29	—
Total Operating Expenses	414	405	9
Other Income (Expense) - net	1	3	(2)
Interest Expense	33	33	—
Income Taxes	48	56	(8)
Net Income	\$ 79	\$ 94	\$ (15)

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Distribution Price (a)	\$ 12
Distribution volume	(3)
PLR (b)	(21)
Transmission Formula Rate	1
Other	(1)
Total	\$ (12)

(a) Distribution rider prices resulted in increases of \$12 million for the three months ended March 31, 2017.

(b) Decrease primarily due to lower energy prices as described below.

Energy Purchases

Energy purchases decreased by \$21 million for the three months ended March 31, 2017 compared with 2016 due to lower PLR prices of \$23 million, partially offset by higher PLR volumes of \$3 million.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Corporate service costs	\$ 8
Contractor-related expenses	2
Payroll-related costs	2
Act 129	5
Bad debts	(3)
Total	<u>\$ 14</u>

Depreciation

Depreciation increased \$16 million for the three months ended March 31, 2017 compared with 2016, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Change in pre-tax income at current period tax rates	\$ (10)
Depreciation not normalized	(1)
Stock-based compensation	3
Total	<u>\$ (8)</u>

Earnings

	Three Months Ended	
	March 31,	
	2017	2016
Net Income	\$ 79	\$ 94
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings decreased for the three month period in 2017 compared with 2016 primarily due to higher other operation and maintenance expense, primarily due to higher corporate service costs, and higher depreciation expense, primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements. Higher transmission margins due to additional capital investments were offset by lower peak transmission demand.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months
Pennsylvania Gross Margins	\$ 1
Other operation and maintenance	(10)
Depreciation	(12)
Other Income (Expense) - net	(2)
Income Taxes	8
Net Income	<u>\$ (15)</u>

Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2017 Three Months			2016 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 573	\$ —	\$ 573	\$ 585	\$ —	\$ 585
Operating Expenses						
Energy purchases	146	—	146	167	—	167
Other operation and maintenance	29	135	164	25	125	150
Depreciation	4	71	75	—	59	59
Taxes, other than income	28	1	29	28	1	29
Total Operating Expenses	<u>207</u>	<u>207</u>	<u>414</u>	<u>220</u>	<u>185</u>	<u>405</u>
Total	<u>\$ 366</u>	<u>\$ (207)</u>	<u>\$ 159</u>	<u>\$ 365</u>	<u>\$ (185)</u>	<u>\$ 180</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2017	2016	\$ Change
Operating Revenues	\$ 809	\$ 826	\$ (17)
Operating Expenses			
Operation			
Fuel	191	198	(7)
Energy purchases	69	66	3
Other operation and maintenance	207	202	5
Depreciation	105	99	6
Taxes, other than income	16	15	1
Total Operating Expenses	588	580	8
Other Income (Expense) - net	(2)	(1)	(1)
Interest Expense	49	49	—
Interest Expense with Affiliate	4	4	—
Income Taxes	63	72	(9)
Net Income	\$ 103	\$ 120	\$ (17)

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Volumes	\$ (37)
Fuel and other energy prices (a)	11
DSM	5
Other	4
Total	\$ (17)

(a) Increase due to higher recoveries of fuel and energy purchases due to higher commodity costs.

Fuel

Fuel decreased \$7 million for the three months ended March 31, 2017 compared with 2016 primarily due to a \$12 million decrease in volumes, driven by milder weather, partially offset by a \$5 million increase in fuel prices.

Income Taxes

Income taxes decreased \$9 million for the three months ended March 31, 2017 compared with 2016 primarily due to lower pre-tax income.

Earnings

	Three Months Ended	
	March 31,	
	2017	2016
Net Income	\$ 103	\$ 120
Special items, gains (losses), after-tax	(1)	—

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Earnings decreased for the three month period in 2017 compared with 2016 primarily due to lower electricity sales volumes driven by milder weather.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months
Margins	\$ (18)
Other operation and maintenance	(3)
Depreciation	(2)
Taxes, other than income	(2)
Income Taxes	9
Special items, gains (losses), after-tax (a)	(1)
Net Income	<u>\$ (17)</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following table contains the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 809	\$ —	\$ 809	\$ 826	\$ —	\$ 826
Operating Expenses						
Fuel	191	—	191	198	—	198
Energy purchases	69	—	69	66	—	66
Other operation and maintenance	26	181	207	24	178	202
Depreciation	16	89	105	12	87	99
Taxes, other than income	—	16	16	1	14	15
Total Operating Expenses	<u>302</u>	<u>286</u>	<u>588</u>	<u>301</u>	<u>279</u>	<u>580</u>
Total	<u>\$ 507</u>	<u>\$ (286)</u>	<u>\$ 221</u>	<u>\$ 525</u>	<u>\$ (279)</u>	<u>\$ 246</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2017	2016	\$ Change
Operating Revenues			
Retail and wholesale	\$ 374	\$ 375	\$ (1)
Electric revenue from affiliate	17	11	6
Total Operating Revenues	391	386	5
Operating Expenses			
Operation			
Fuel	80	78	2
Energy purchases	64	62	2
Energy purchases from affiliate	2	2	—
Other operation and maintenance	87	87	—
Depreciation	44	41	3
Taxes, other than income	8	8	—
Total Operating Expenses	285	278	7
Other Income (Expense) - net	(2)	—	(2)
Interest Expense	17	17	—
Income Taxes	33	35	(2)
Net Income	\$ 54	\$ 56	\$ (2)

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Volumes	\$ (5)
Fuel and other energy prices	4
DSM	3
Other	3
Total	\$ 5

Earnings

	Three Months Ended	
	March 31,	
	2017	2016
Net Income	\$ 54	\$ 56
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings decreased for the three month period in 2017 compared with 2016 primarily due to higher depreciation expense, fuel costs and energy purchases, partially offset by higher native load sales to KU due to timing of plant outages.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months
Margins	\$ (2)
Other operation and maintenance	1
Taxes, other than income	(1)
Other Income (Expense) - net	(2)
Income Taxes	2
Net Income	<u>\$ (2)</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following table contains the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 391	\$ —	\$ 391	\$ 386	\$ —	\$ 386
Operating Expenses						
Fuel	80	—	80	78	—	78
Energy purchases, including affiliate	66	—	66	64	—	64
Other operation and maintenance	10	77	87	9	78	87
Depreciation	9	35	44	6	35	41
Taxes, other than income	—	8	8	1	7	8
Total Operating Expenses	<u>165</u>	<u>120</u>	<u>285</u>	<u>158</u>	<u>120</u>	<u>278</u>
Total	<u>\$ 226</u>	<u>\$ (120)</u>	<u>\$ 106</u>	<u>\$ 228</u>	<u>\$ (120)</u>	<u>\$ 108</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2017	2016	\$ Change
Operating Revenues			
Retail and wholesale	\$ 435	\$ 451	\$ (16)
Electric revenue from affiliate	2	2	—
Total Operating Revenues	<u>437</u>	<u>453</u>	<u>(16)</u>
Operating Expenses			
Operation			
Fuel	111	120	(9)
Energy purchases	5	4	1
Energy purchases from affiliate	17	11	6
Other operation and maintenance	109	106	3
Depreciation	60	58	2
Taxes, other than income	8	7	1
Total Operating Expenses	<u>310</u>	<u>306</u>	<u>4</u>
Other Income (Expense) - net	(1)	(2)	1
Interest Expense	24	24	—
Income Taxes	39	46	(7)
Net Income	<u>\$ 63</u>	<u>\$ 75</u>	<u>\$ (12)</u>

Operating Revenue

The increase (decrease) in operating revenue for the period ended March 31, 2017 compared with 2016 was due to:

	Three Months
Volumes	\$ (24)
Fuel and other energy prices (a)	6
DSM	2
Total	<u>\$ (16)</u>

(a) Increase due to higher recoveries of fuel due to higher commodity costs.

Fuel

Fuel decreased \$9 million for the three months ended March 31, 2017 compared with 2016 primarily due to a \$16 million decrease in volumes, driven by milder weather, partially offset by a \$7 million increase in fuel prices.

Energy purchases from affiliate

Energy purchases from affiliate increased \$6 million for the three months ended March 31, 2017 compared with 2016 primarily due to higher native load purchases from LG&E due to timing of plant outages.

Income Taxes

Income taxes decreased \$7 million for the three months ended March 31, 2017 compared with 2016 primarily due to lower pre-tax income.

Earnings

	Three Months Ended	
	March 31,	
	2017	2016
Net Income	\$ 63	\$ 75
Special items, gains (losses), after-tax	(1)	—

Earnings decreased for the three month period in 2017 compared with 2016 primarily due to lower sales volumes driven by milder weather and higher energy purchases from affiliate, partially offset by lower fuel expense and lower income taxes.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Margins	\$ (16)
Other operation and maintenance	(2)
Depreciation	(1)
Taxes, other than income	(1)
Other Income (Expense) - net	2
Income Taxes	7
Special items, gains (losses), after-tax (a)	(1)
Net Income	<u>\$ (12)</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following table contains the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 437	\$ —	\$ 437	\$ 453	\$ —	\$ 453
Operating Expenses						
Fuel	111	—	111	120	—	120
Energy purchases, including affiliate	22	—	22	15	—	15
Other operation and maintenance	16	93	109	15	91	106
Depreciation	7	53	60	6	52	58
Taxes, other than income	—	8	8	—	7	7
Total Operating Expenses	156	154	310	156	150	306
Total	<u>\$ 281</u>	<u>\$ (154)</u>	<u>\$ 127</u>	<u>\$ 297</u>	<u>\$ (150)</u>	<u>\$ 147</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)		PPL Electric		LKE		LG&E		KU	
March 31, 2017										
Cash and cash equivalents	\$	409	\$	20	\$	15	\$	4	\$	7
Short-term debt		1,666		499		243		207		36
Notes payable with affiliate				—		82		—		—
December 31, 2016										
Cash and cash equivalents	\$	341	\$	13	\$	13	\$	5	\$	7
Short-term debt		923		295		185		169		16
Notes payable with affiliate				—		163		—		—

(a) At March 31, 2017, \$51 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2016 Form 10-K for additional information on undistributed earnings of WPD.

(All Registrants)

Net cash provided by (used in) operating, investing and financing activities for the three month period ended March 31, and the changes between periods, were as follows.

	PPL		PPL Electric		LKE		LG&E		KU	
2017										
Operating activities	\$	135	\$	55	\$	312	\$	142	\$	139
Investing activities		(677)		(276)		(184)		(94)		(89)
Financing activities		607		228		(126)		(49)		(50)
2016										
Operating activities	\$	557	\$	124	\$	303	\$	157	\$	195
Investing activities		(661)		(215)		(219)		(109)		(110)
Financing activities		115		78		(86)		(56)		(79)
Change - Cash Provided (Used)										
Operating activities	\$	(422)	\$	(69)	\$	9	\$	(15)	\$	(56)
Investing activities		(16)		(61)		35		15		21
Financing activities		492		150		(40)		7		29

Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2017 compared with 2016 were as follows.

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	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ (78)	\$ (15)	\$ (17)	\$ (2)	\$ (12)
Non-cash components	90	1	(13)	(4)	(5)
Working capital	(36)	(31)	28	(15)	(29)
Defined benefit plan funding	(397)	(24)	11	12	(9)
Other operating activities	(1)	—	—	(6)	(1)
Total	<u>\$ (422)</u>	<u>\$ (69)</u>	<u>\$ 9</u>	<u>\$ (15)</u>	<u>\$ (56)</u>

(PPL)

PPL's cash provided by operating activities in 2017 decreased \$422 million compared with 2016.

- The \$90 million increase in net non-cash components was primarily due to an increase in unrealized losses on derivatives.
- The \$36 million decrease in cash from changes in working capital was primarily due to a decrease in accounts payable (primarily due to timing of payments), a decrease in taxes payable (primarily due to an increase in current income tax benefit in 2017) and an increase in prepayments (primarily due to higher tax payments) partially offset by a decrease in unbilled revenue and accounts receivable (primarily due to less favorable weather in 2017 compared to 2016) and a decrease in fuel, materials and supplies (primarily due to a decrease in volumes due to less favorable weather in 2017 compared to 2016).
- Defined benefit plan funding was \$397 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans. See Note 8 to the Financial Statements for additional information.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2017 decreased \$69 million compared with 2016.

- The \$31 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to higher tax payments) and a decrease in accounts payable (primarily due to timing of payments) partially offset by a decrease in accounts receivable (primarily due to unfavorable weather in 2017), a net decrease in current regulatory assets and regulatory liabilities (due to the timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to a decrease in income tax expense in 2017).
- Defined benefit plan funding was \$24 million higher in 2017.

(LKE)

LKE's cash provided by operating activities in 2017 increased \$9 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by decreases in accounts receivable and unbilled revenues due to less favorable weather in 2017 compared to 2016 and an increase in taxes payable due to timing of payments, partially offset by a decrease in accounts payable due to timing of fuel purchases and payments.

(LG&E)

LG&E's cash provided by operating activities in 2017 decreased \$15 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in taxes payable due to timing of payments and accounts payable due to timing of fuel purchases and payments, partially offset by decreases in accounts receivable and unbilled revenues due to less favorable weather in 2017 compared to 2016.

(KU)

KU's cash provided by operating activities in 2017 decreased \$56 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in taxes payable due to timing of payments, accounts payable due to timing of fuel purchases and payments and accounts payable to affiliates due to higher intercompany settlements associated with operational expenses and inventory, partially offset by decreases in accounts receivable and unbilled revenues due to less favorable weather in 2017 compared to 2016.

[Table of Contents](#)**Investing Activities***(All Registrants)**Expenditures for Property, Plant and Equipment*

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the three months ended March 31, 2017 compared with 2016 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ (21)	\$ (60)	\$ 35	\$ 15	\$ 21

For PPL, the increase in expenditures was due to higher project expenditures at WPD and PPL Electric partially offset by lower project expenditures at LG&E and KU and a decrease in foreign currency exchange rates. The increase in project expenditures for WPD was primarily due to an increase in expenditures to enhance system reliability. The increase in expenditures for PPL Electric was primarily due to the smart meter implementation project and various enhancement reliability projects. The decrease in expenditures for LG&E was primarily due to reduced spending for environmental air projects at LG&E's Mill Creek plant. The decrease in expenditures for KU was primarily due to reduced spending for environmental air projects at KU's Ghent plant.

Financing Activities*(All Registrants)*

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2017 compared with 2016 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 64	\$ —	\$ —	\$ —	\$ —
Stock issuances/redemptions, net	31	—	—	—	—
Dividends	(3)	(31)	—	(62)	(6)
Capital contributions/distributions, net	—	100	(73)	(30)	—
Change in short-term debt, net	393	79	207	98	34
Notes payable with affiliate	—	—	(174)	—	—
Other financing activities	7	2	—	1	1
Total	\$ 492	\$ 150	\$ (40)	\$ 7	\$ 29

See Note 7 to the Financial Statements in this Form 10-Q for information on 2017 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2016 Form 10-K for information on 2016 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At March 31, 2017, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

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External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 206	\$ 1,194
PPL Electric Credit Facility	650	—	500	150
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	207	293
KU Credit Facilities	598	—	234	364
Total LKE	1,173	—	441	732
Total U.S. Credit Facilities (a)	\$ 3,223	\$ —	\$ 1,147	\$ 2,076
Total U.K. Credit Facilities (b)	£ 1,285	£ 591	£ —	£ 694

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.
- (b) The amounts borrowed at March 31, 2017 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$535 million. At March 31, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$864 million.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 20% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 82	\$ —	\$ 143
LG&E Money Pool (a)	500	—	207	293
KU Money Pool (a)	500	—	36	464

- (a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 10 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at March 31, 2017:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 189	\$ 811
PPL Electric	650	499	151
LG&E	350	207	143
KU	350	36	314
Total LKE	700	243	457
Total PPL	\$ 2,350	\$ 931	\$ 1,419

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Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds will be used for general corporate purposes.

(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

(PPL)

ATM Program

For the period ended March 31, 2017, PPL issued the following:

Number of shares (in thousands)		1,364
Average share price	\$	36.66
Net Proceeds	\$	50

See Note 7 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In February 2017, PPL declared a quarterly common stock dividend, payable April 3, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2017:

(PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

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(LG&E)

In March 2017, Moody's and S&P confirmed ratings of A1 and A to LG&E's 2003 Series A Pollution Control Revenue Bonds.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 13 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at March 31, 2017.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2016 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 12 and 13 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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The following interest rate hedges were outstanding at March 31, 2017.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement in Rates (b)</u>	<u>Maturities Ranging Through</u>
PPL				
Cash flow hedges				
Cross-currency swaps (c)	\$ 802	\$ 182	\$ (90)	2028
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033

- (a) Includes accrued interest, if applicable.
 (b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.
 (c) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.
 (d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at March 31, 2017 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at March 31, 2017 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 563
PPL Electric	137
LKE	180
LG&E	66
KU	99

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at March 31, 2017.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)</u>	<u>Maturities Ranging Through</u>
Economic hedges (b)	£ 2,840	\$ 150	\$ (333)	2019

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
 (b) To economically hedge the translation risk of expected earnings denominated in GBP.

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(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 12 and 13 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2016 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$24 million for the three months ended March 31, 2017, which primarily reflected a \$46 million decrease to PP&E and a \$10 million decrease to goodwill partially offset by a \$28 million decrease to long-term debt and a \$4 million decrease to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$466 million for the three months ended March 31, 2016, which primarily reflected a \$909 million decrease to PP&E and a \$214 million decrease to goodwill partially offset by a \$557 million decrease to long-term debt and a \$100 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 10 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2016 Form 10-K for information on the more significant activities.

Environmental Matters *(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the

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Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. In addition, the regulatory reviews specified in the President's March 2017 Executive Order promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 9 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines, and
- National Ambient Air Quality Standards.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2016 Form 10-K for additional information on environmental matters.

New Accounting Guidance *(All Registrants)*

See Note 17 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2016 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Price Risk Management	X				
Regulatory Assets and Liabilities	X	X	X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2017, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2016 Form 10-K; and
- Notes 6 and 9 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2016 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

- [*10\(a\)](#) - Third Amendment to Revolving Credit Agreement, dated as of March 17, 2017, to the Existing Credit Agreement, dated as of March 26, 2014, between PPL Capital Funding, Inc., the Borrower, PPL Corporation, the Guarantor, The Bank of Nova Scotia, as the Administrative Agent, Sole Lead Arranger and Sole Bookrunner, and each Lender
- [10\(b\)](#) - £230,000,000 Term Loan Agreement, dated March 28, 2017, between Western Power Distribution plc and HSBC Bank, PLC and Mizuho Bank, Ltd., as Mandated Lead Arrangers, and Mizuho Bank, Ltd., as Facility Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 5, 2017)
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2017, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(d\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(e\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(f\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(g\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(h\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(i\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(j\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2017, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document
- 101.SCH - XBRL Taxonomy Extension Schema
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase
- 101.LAB - XBRL Taxonomy Extension Label Linkbase
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: May 4, 2017

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: May 4, 2017

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: May 4, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIS THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT, dated as of March 17, 2017 (this “Amendment”), to the Existing Credit Agreement (as defined below) is made by PPL CAPITAL FUNDING, INC., a Delaware corporation (the “Borrower”), PPL CORPORATION, a Pennsylvania corporation (the “Guarantor”) and each Lender (such capitalized term and other capitalized terms used in this preamble and the recitals below to have the meanings set forth in, or are defined by reference in, Article I below).

WITNESSETH:

WHEREAS, the Borrower, the Guarantor, the Lenders and The Bank of Nova Scotia, as the Administrative Agent, Sole Lead Arranger and Sole Bookrunner, are all parties to the Revolving Credit Agreement, dated as of March 26, 2014 (as amended or otherwise modified prior to the date hereof, the “Existing Credit Agreement”, and as amended by this Amendment and as the same may be further amended, supplemented, amended and restated or otherwise modified from time to time, the “Credit Agreement”); and

WHEREAS, the Borrower has requested that the Lenders amend the Existing Credit Agreement in order to extend the maturity date therein and the Lenders are willing to modify the Existing Credit Agreement on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby covenant and agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Certain Definitions. The following terms when used in this Amendment shall have the following meanings (such meanings to be equally applicable to the singular and plural forms thereof):

“Amendment” is defined in the preamble.

“Borrower” is defined in the preamble.

“Credit Agreement” is defined in the first recital.

“Existing Credit Agreement” is defined in the first recital.

“Guarantor” is defined in the preamble.

SECTION 1.2. Other Definitions. Terms for which meanings are provided in the Existing Revolving Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used in this Amendment with such meanings.

ARTICLE II
AMENDMENTS TO THE EXISTING CREDIT AGREEMENT

Effective as of the date hereof, but subject to the satisfaction of the conditions in Article III,

(a) Section 1.1 of the Existing Credit Agreement is hereby amended by adding the following definitions in the appropriate alphabetical order:

“FCPA” has the meaning set forth in Section 5.16.

“Sanctioned Country” means a country, region or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Crimea, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom or any other applicable sanctions authority.

(b) Section 1.1 of the Existing Credit Agreement is hereby amended by deleting the definition “Sanctioned Entity” where it appears therein.

(c) Section 1.1 of the Existing Credit Agreement is hereby amended by amending and restating the following definitions in their entirety as follows:

“London Interbank Offered Rate” means for any Euro-Dollar Loan for any Interest Period, the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Administrative Agent which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (for purposes of this definition, an “Alternate Source”), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for Dollars for an amount comparable to such Euro-Dollar Loan and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error)). Notwithstanding the foregoing, if the London Interbank Offered Rate determined in accordance with the foregoing shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“Termination Date” means the earliest to occur of (i) March 16, 2018 and (ii) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

(d) Sections 5.04(a), 5.04(c), 5.05 and 5.13 of the Existing Credit Agreement are hereby amended by replacing references to “December 31, 2015” with “December 31, 2016”.

(e) Section 5.15 of the Existing Credit Agreement is hereby amended and restated in its entirety as follows:

Section 5.15. OFAC. None of the Borrower, the Guarantor or any Subsidiary of the Guarantor, nor, to the knowledge of the Guarantor or the Borrower, any director, officer, or Affiliate of the Borrower, the Guarantor or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries.

(f) Article V of the Existing Credit Agreement is hereby amended by adding a new Section 5.16 as follows:

Section 5.16. Anti-Corruption. None of the Borrower, the Guarantor or any of its Subsidiaries, nor, to the knowledge of the Borrower or the Guarantor, any director, officer, agent, employee or other person acting on behalf of the Borrower or the Guarantor or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”) or any other applicable anti-corruption law; and the Loan Parties have instituted and maintain policies and procedures designed to ensure continued compliance therewith.

(g) Section 6.06 of the Existing Credit Agreement is hereby amended and restated in its entirety as follows:

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes and for making investments in or loans to the Guarantor and Affiliates of the Loan Parties. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE III
CONDITIONS TO EFFECTIVENESS

This Amendment and the amendments contained herein shall become effective as of the date hereof when each of the conditions set forth in this Article III shall have been fulfilled to the satisfaction of the Administrative Agent.

SECTION 3.1. Counterparts. The Administrative Agent shall have received counterparts hereof executed on behalf of the Borrower, the Guarantor and the each of the Lenders.

SECTION 3.2. Costs and Expenses, etc. The Administrative Agent shall have received for the account of each Lender, all fees, costs and expenses due and payable pursuant to Section 9.03 of the Credit Agreement, if then invoiced.

SECTION 3.3. Resolutions, etc. The Administrative Agent shall have received from the Borrower and the Guarantor (i) a copy of a good standing certificate for such Loan Party, dated a date reasonably close to the date hereof and (ii) a certificate, dated as of the date hereof, of a Secretary or an Assistant Secretary of each Loan Party certifying (a) that attached thereto is a true, correct and complete copy of (x) the articles or certificate of incorporation of such Loan Party certified by the Secretary of State (or equivalent body) of the jurisdiction of incorporation of such Loan Party and (y) the bylaws of such Loan Party, and (b) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of such Loan Party authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force.

SECTION 3.4. Opinion of Counsel. The Administrative Agent shall have received an opinion, dated the date hereof and addressed to the Administrative Agent and all Lenders, from counsel to the Borrower, in form and substance satisfactory to the Administrative Agent.

SECTION 3.1. Satisfactory Legal Form. The Administrative Agent and its counsel shall have received all information, and such counterpart originals or such certified or other copies of such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the effectiveness of this Amendment shall be satisfactory to the Administrative Agent and its counsel. All documents executed or submitted pursuant hereto or in connection herewith shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

ARTICLE IV
MISCELLANEOUS

SECTION 4.1. Cross-References. References in this Amendment to any Article or Section are, unless otherwise specified, to such Article or Section of this Amendment.

SECTION 4.2. Loan Document Pursuant to Existing Credit Agreement. This Amendment is a Loan Document executed pursuant to the Existing Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in

accordance with all of the terms and provisions of the Existing Credit Agreement, as amended hereby, including Article IX thereof.

SECTION 4.3. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which when executed and delivered shall be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 4.5. Governing Law. THIS AMENDMENT WILL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 4.6. Full Force and Effect; Limited Amendment. Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Existing Credit Agreement and the Loan Documents shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms. The amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the Existing Credit Agreement or any other Loan Document or of any transaction or further or future action on the part of any Obligor which would require the consent of the Lenders under the Existing Credit Agreement or any of the Loan Documents.

SECTION 4.7. Representations and Warranties. In order to induce the Lenders to execute and deliver this Amendment, the Borrower and Guarantor each hereby represents and warrants to the Lenders, on the date this Amendment becomes effective pursuant to Article III, that both before and after giving effect to this Amendment, all representations and warranties set forth in Article V of the Credit Agreement are true and correct as of such date, except to the extent that any such statement expressly relates to an earlier date (in which case such statement was true and correct on and as of such earlier date).

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

PPL CAPITAL FUNDING, INC., as the Borrower

By: _____

Name:

Title:

PPL CORPORATION, as the Guarantor

By: _____

Name:

Title:

THE BANK OF NOVA SCOTIA, as the
Administrative Agent and as a Lender

By: _____

Name:

Title:

Third Amendment to Revolving Credit Agreement

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Three Months Ended March 31,	Years Ended December 31,				
	2017	2016	2015 (a)	2014 (a)	2013 (a)	2012 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 532	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728	\$ 1,406
Adjustment to reflect earnings from equity method investments on a cash basis (b)	1	(1)	(1)	—	—	34
	<u>533</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>	<u>1,440</u>
Total fixed charges as below	222	917	1,054	1,095	1,096	1,065
Less:						
Capitalized interest	1	4	11	11	11	6
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Interest expense and fixed charges related to discontinued operations	—	—	150	186	235	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>221</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>	<u>819</u>
Total earnings	<u>\$ 754</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>	<u>\$ 2,259</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 219	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058	\$ 1,019
Estimated interest component of operating rentals	3	17	16	22	38	41
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Total fixed charges (d)	<u>\$ 222</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>
Ratio of earnings to fixed charges	<u>3.4</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>3.4</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes other-than-temporary impairment loss of \$25 million in 2012.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(d) Interest on unrecognized tax benefits is not included in fixed charges.

(e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(Millions of Dollars)

	Three Months Ended March 31, 2017	Years Ended December 31,				
	2016	2015	2014	2013	2012	
Earnings, as defined:						
Income Before Income Taxes	\$ 127	\$ 552	\$ 416	\$ 423	\$ 317	\$ 204
Total fixed charges as below	35	141	139	131	117	107
Total earnings	\$ 162	\$ 693	\$ 555	\$ 554	\$ 434	\$ 311
Fixed charges, as defined:						
Interest charges (a)	\$ 34	\$ 137	\$ 135	\$ 127	\$ 113	\$ 104
Estimated interest component of operating rentals	1	4	4	4	4	3
Total fixed charges (b)	\$ 35	\$ 141	\$ 139	\$ 131	\$ 117	\$ 107
Ratio of earnings to fixed charges	4.6	4.9	4.0	4.2	3.7	2.9
Preferred stock dividend requirements on a pre-tax basis	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6
Fixed charges, as above	35	141	139	131	117	107
Total fixed charges and preferred stock dividends	\$ 35	\$ 141	\$ 139	\$ 131	\$ 117	\$ 113
Ratio of earnings to combined fixed charges and preferred stock dividends	4.6	4.9	4.0	4.2	3.7	2.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months	Years Ended December 31,				
	Ended March 31, 2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 166	\$ 686	\$ 603	\$ 553	\$ 551	\$ 331
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>167</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>	<u>364</u>
Total fixed charges as below	55	223	189	173	151	157
Total earnings	<u>\$ 222</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>	<u>\$ 521</u>
Fixed charges, as defined:						
Interest charges (b) (c)	\$ 53	\$ 214	\$ 181	\$ 167	\$ 145	\$ 151
Estimated interest component of operating rentals	2	9	8	6	6	6
Total fixed charges	<u>\$ 55</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>	<u>\$ 157</u>
Ratio of earnings to fixed charges	<u>4.0</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>	<u>3.3</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(c) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months Ended March 31,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 87	\$ 329	\$ 299	\$ 272	\$ 257	\$ 192
Total fixed charges as below	18	76	61	51	36	44
Total earnings	\$ 105	\$ 405	\$ 360	\$ 323	\$ 293	\$ 236
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 17	\$ 71	\$ 57	\$ 49	\$ 34	\$ 42
Estimated interest component of operating rentals	1	5	4	2	2	2
Total fixed charges	\$ 18	\$ 76	\$ 61	\$ 51	\$ 36	\$ 44
Ratio of earnings to fixed charges	5.8	5.3	5.9	6.3	8.1	5.4

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months	Years Ended December 31,				
	Ended March 31, 2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 102	\$ 428	\$ 374	\$ 355	\$ 360	\$ 215
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>103</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>	<u>248</u>
Total fixed charges as below	<u>25</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>	<u>72</u>
Total earnings	<u>\$ 128</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>	<u>\$ 320</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 24	\$ 96	\$ 82	\$ 77	\$ 70	\$ 69
Estimated interest component of operating rentals	1	4	4	3	3	3
Total fixed charges	<u>\$ 25</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>	<u>\$ 72</u>
Ratio of earnings to fixed charges	<u>5.1</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>	<u>4.4</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: April 19, 2017 (period: April 19, 2017)

Report of unscheduled material events or corporate changes.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 19, 2017

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

In connection with the announcement reported below, PPL Corporation has reaffirmed its previously announced 2017 earnings forecast of \$2.05 to \$2.25 per share, with a midpoint of \$2.15 per share, and projected compound annual earnings per share growth rate of 5% to 6% from 2017 through 2020.

Section 8 - Other Events

Item 8.01 Other Events

On April 19, 2017, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies") issued a press release announcing that they have entered into an agreement with the majority of the intervenors in their proceedings commenced in November 2016 before the Kentucky Public Service Commission ("KPSC") regarding increases in base electricity rates at LG&E and KU and base gas rates at LG&E.

The proposed agreement provides for increases in the annual revenue requirements associated with LG&E and KU base electricity rates of \$59.4 million and \$54.9 million, respectively, and with LG&E base gas rates of \$7.5 million. The proposal includes an authorized 9.75% return on equity in such base rate calculations. As part of the proposed agreement, the Companies will agree to withdraw their current request for a Certificate of Public Convenience and Necessity ("CPCN") regarding full deployment of advanced meters, but continue to request a CPCN for substation automation and continue to propose certain gas line replacement projects.

A hearing on the agreement, and any remaining issues in the proceedings, is scheduled for May 9, 2017. The agreement is subject to KPSC review and action. Subject to such steps, the changed rates may become effective on July 1, 2017.

The proceedings are designated as KPSC Case No. 2016-00370 for KU and Case No. 2016-00371 for LG&E.

The Companies cannot predict the outcome of these proceedings.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(a) Exhibits

- 99.1 - Press Release dated April 19, 2017 of Louisville Gas and Electric Company and Kentucky Utilities Company.

Statements in this report regarding future events and their timing, including the Companies' requested rate increases, future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-

looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer

Dated: April 19, 2017

Press Release

LG&E and KU Energy LLC

220 West Main Street
Louisville, Kentucky 40202
www.lge-ku.com

Contact:

Media Line

T 502-627-4999
F 502-627-3629

April 19, 2017

LG&E, KU and Parties to Utilities' Rate Review Reach Agreement

Recommendation allows for investments in safe, reliable service

(LOUISVILLE, Ky.) — Louisville Gas and Electric Company, Kentucky Utilities Company and most parties to the utilities' rate review have reached an agreement filed with the Kentucky Public Service Commission today.

The agreement, which is subject to approval by the KPSC, gives Louisville Gas and Electric Company and Kentucky Utilities Company the ability to invest in intelligent control equipment that will enhance reliability and enable faster restoration of service. It also will give LG&E the ability to improve natural gas safety and reliability by replacing aging natural gas service steel lines — that run from the street to customers' homes — with new plastic lines.

Additionally, the utilities have committed \$1.45 million of shareholder dollars annually for the next four years to low-income advocacy groups that will be used to support the utilities' most vulnerable customers.

The utilities also have agreed to withdraw their current plans for full deployment of advanced meters (AMS) that help customers better manage their energy use and allow the utilities the ability to know when customers' service is out. LG&E and KU will continue their voluntary advanced meter program and form an AMS collaborative of interested parties from the existing rate review to address issues raised by the parties with respect to LG&E and KU's proposal.

If approved by the KPSC, KU would receive a revenue increase of \$54.9 million. LG&E would see an electric revenue increase of \$59.4 million, and the natural gas business would see an increase of \$7.5 million.

A KU residential customer using an average of 1,179 kilowatt hours per month would see an increase of \$4.21 per month. An LG&E residential electric customer using an average of 957 kWh per month would see a total monthly increase of \$6.77. A residential LG&E natural gas customer using an average of 55 Ccf per month would see a total monthly increase of \$1.47.

According to the agreement, the monthly electric basic service charge for LG&E and KU, included in the increase above, would be \$11.50 beginning July 1, 2017, and \$12.25 beginning July 1, 2018, respectively. LG&E's monthly natural gas basic service charge would be \$16.35 beginning July 1, 2017, and remain the same until a future rate review.

"There were a large number of parties with different interests involved in this case and we are pleased to have reached a settlement that benefits our customers and their constituent groups," said Kent Blake, LG&E and KU chief financial officer. "The agreement gives us the ability to enhance our reliability and continue providing safe and reliable service to our customers while meeting the needs of the parties to this case."

The public hearing on the rate review is scheduled to begin May 9 at the KPSC offices in Frankfort.

###

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve nearly 1.3 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 324,000 natural gas and 407,000 electric customers in Louisville and 16 surrounding counties. KU serves 549,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: June 01, 2017 (period: June 01, 2017)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 1, 2017

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (§230.405) or Rule 12b-2 under the Exchange Act (§240.12b-2).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company

Section 2 - Financial Information

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

and

Section 8 - Other Events

Item 8.01 Other Events

On June 1, 2017, the County of Trimble, Kentucky (the "Issuer") issued \$60,000,000 aggregate principal amount of its Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) (the "Issuer Bonds") on behalf of Louisville Gas and Electric Company ("LG&E"). The proceeds of the Issuer Bonds are being used to pay and discharge \$60,000,000 in outstanding principal amount of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) previously issued by the Issuer on behalf of LG&E to refinance certain air and water pollution control facilities and solid waste disposal facilities (the "Project") owned by LG&E. The Issuer Bonds mature on June 1, 2033 and are subject to mandatory purchase on any date on which the Issuer Bonds are converted to a different interest rate mode, as described below.

The Issuer Bonds were issued under an Indenture of Trust, dated as of June 1, 2017 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee (the "Issuer Bond Trustee"). The Issuer has loaned the proceeds of the Issuer Bonds to LG&E pursuant to a Loan Agreement dated as of June 1, 2017 between LG&E and the Issuer (the "Loan Agreement"). Pursuant to the Loan Agreement, LG&E is obligated to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal or redemption price and interest on the Issuer Bonds.

To secure its obligations to make payments with respect to the Issuer Bonds, LG&E has delivered to the Issuer Bond Trustee its First Mortgage Bonds, Collateral Series 2017TCA (the "Company Mortgage Bonds"), in each case, issued pursuant to LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented by Supplemental Indenture No. 6 ("Supplemental Indenture No. 6") dated as of May 15, 2017 (the "2010 Indenture"). The principal amount, maturity date and interest rate provisions of the Company Mortgage Bonds correspond to the principal amount and maturity date of, and the interest rates on, the Issuer Bonds. So long as LG&E makes the required payments under the Loan Agreement, it will not be obligated to make additional payments on the Company Mortgage Bonds.

The Issuer Bonds were issued bearing interest at a long term rate of 3.75% per annum. Interest on the Issuer Bonds will be payable on each June 1 and December 1, commencing December 1, 2017. The Issuer Bonds will be subject to optional redemption on and after June 1, 2027, as described below. The method of determining the interest rate on the Issuer Bonds may be converted from time to time on or after June 1, 2027 at LG&E's option in accordance with the Indenture to a daily rate, a weekly rate, a semi-annual rate, an annual rate, a long term rate, rates based on a London Interbank Offered (LIBOR) rate, a term rate based on the Securities Industry and Financial Markets Association Municipal Swap Index or an agreed flexible rate determined by a remarketing agent based on prevailing market conditions. The Issuer Bonds will continue to bear interest at the long term rate until a conversion to another interest rate mode or until maturity or redemption of the Issuer Bonds.

On any date on or after June 1, 2027, the Issuer Bonds are subject to optional redemption at the option of the Issuer upon the written direction of LG&E, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. The optional redemption provisions may be changed in connection with a conversion to a different interest rate mode. The Issuer Bonds are also subject to extraordinary optional redemption at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by LG&E of an option under the Loan Agreement to prepay the loan upon the occurrence of certain events, including specified damage to or destruction of the Project, condemnation of the Project, certain changes in law rendering the Loan Agreement void or unenforceable or an order requiring cessation of a substantial part of LG&E's operations at the generating station served by the Project that would prevent LG&E from carrying on its normal operations at such station for a period of six months. As a result of a letter agreement between the Issuer and LG&E, dated as of June 1, 2017, LG&E has agreed that it will not, prior to the earliest of the change to a different long term rate period, the conversion to a different interest rate mode or the maturity of the

Issuer Bonds, exercise the rights under the Loan Agreement it would otherwise have to redeem the Issuer Bonds under certain circumstances, including the imposition of unreasonable burdens or excessive liabilities upon LG&E with respect to the Project or changes in the economic availability of materials or supplies necessary for the efficient operation of the generating station served by the Project. The Issuer Bonds are also subject to mandatory redemption upon a determination that the interest on the Issuer Bonds would be included in the gross income of the owners thereof for federal income tax purposes. Any such mandatory redemption would be at a redemption price of 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date.

The Loan Agreement, Supplemental Indenture No. 6 and the Officer's Certificate under the 2010 Indenture relating to the Company Mortgage Bonds are filed with this report as Exhibits 4(a), 4(b) and 4(c), respectively.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description
4(a)	Loan Agreement dated as of June 1, 2017 between Louisville Gas and Electric Company and the County of Trimble, Kentucky
4(b)	Supplemental Indenture No. 6, dated as of May 15, 2017, of Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee
4(c)	Officer's Certificate, dated June 1, 2017, pursuant to Section 201 and Section 301 of the Indenture, dated as of October 1, 2010, of Louisville Gas and Electric Company to The Bank of New York Mellon

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: June 1, 2017

COUNTY OF TRIMBLE, KENTUCKY

And

LOUISVILLE GAS AND ELECTRIC COMPANY

A Kentucky Corporation

* * * * *

LOAN AGREEMENT

* * * * *

Dated as June 1, 2017

* * * * *

NOTICE: The interest of the County of Trimble, Kentucky, in and to this Loan Agreement has been assigned to U.S. Bank National Association, as Trustee, under the Indenture of Trust dated as of June 1, 2017

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EXHIBIT A - DESCRIPTION OF THE PROJECT

LOAN AGREEMENT

This **LOAN AGREEMENT** (this “**Agreement**”), dated as of June 1, 2017, by and between the **COUNTY OF TRIMBLE, KENTUCKY** (the “**Issuer**”), a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky, and **LOUISVILLE GAS AND ELECTRIC COMPANY**, a corporation organized and existing under the laws of Kentucky (the “**Company**”);

PREAMBLE

WHEREAS, all capitalized terms not otherwise defined in this preamble shall have the meanings set forth in ARTICLE I hereof, unless the context or use clearly indicates another meaning or intent; and

WHEREAS, pursuant to the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder; and

WHEREAS, the Issuer is authorized pursuant to the Act to issue negotiable bonds and lend the proceeds from the sale of such bonds to a utility company to finance and refinance the acquisition of “pollution control facilities,” as defined by the Act; and

WHEREAS, the Issuer is further authorized pursuant to the Act to enter into a loan agreement, which may include such provisions as the Issuer shall deem appropriate to effect the securing of a financing or refinancing undertaken in respect of Environmental Facilities, including the securing of a letter of credit, other credit facilities, or collateral; and

WHEREAS, the Act further provides that title to the Environmental Facilities shall not be acquired by the Issuer in the case of a loan transaction; and

WHEREAS, the Issuer previously issued the Refunded 2007 Series A Bonds for the purpose of refinancing the costs of the Project constituting certain Environmental Facilities located within Trimble County, Kentucky at the Company’s Trimble County Generating Station consisting of air and water pollution control facilities and solid waste disposal facilities. The Issuer entered into the 2007 Series A Indenture with U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas), as Trustee, Paying Agent, and Bond Registrar thereunder and it is provided in ARTICLE VIII of the 2007 Series A Indenture that the Refunded 2007 Series A Bonds, or any of them, shall be deemed to have been paid within the meaning of such 2007 Series A Indenture when there shall have been irrevocably deposited with the Prior 2007 Series A Trustee, either cash or Governmental Obligations, as defined in the 2007 Series A Indenture, maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to pay the principal and the applicable redemption premium, if any, on the Refunded 2007 Series A Bonds plus interest thereon to the date of payment and discharge thereof (whether at maturity, upon redemption, or otherwise), plus sufficient moneys to pay all necessary and proper fees, compensation, and expenses of the Prior 2007 Series A Trustee, authenticating agent, bond registrar,

and any paying agent; together with irrevocable instructions to call and redeem the Refunded 2007 Series A Bonds; and

WHEREAS, the Company has heretofore, by the issuance of the Refunded 2007 Series A Bonds, refinanced all or a portion of the qualified costs of the construction and acquisition of certain air and water pollution control facilities and solid waste disposal facilities, and facilities functionally related and subordinate to such facilities to serve the Trimble County Generating Station of the Company, which facilities constitute the Project, as defined in the Indenture and as described in **Exhibit A** hereto, which Project is located within the corporate boundaries of the Issuer and consists of certain air and water pollution control facilities and solid waste disposal facilities, and facilities functionally related and subordinate to such facilities in furtherance of the regulations of the Energy and Environment Cabinet of the Commonwealth of Kentucky (formerly the Natural Resources and Environmental Protection Cabinet) and which Project qualifies for refinancing within the meaning of the Act; and

WHEREAS, (i) construction of the Project began before September 26, 1985; completion of the Project occurred after September 26, 1985, and original use of the Project commenced with the Company, (ii) a binding contract to incur significant (i.e., 10% of the then reasonably anticipated cost of construction of the Project) expenditures for construction of the Project was entered into before September 26, 1985 and some of such expenditures were incurred on or after September 26, 1985 and (iii) with respect to both (i) and (ii) above, the Project was described in an inducement resolution or other comparable approval adopted by the Fiscal Court of the Issuer before September 26, 1985 (i.e., on February 29, 1980); and

WHEREAS, the Project has been completed and placed in operation in whole or in part and has contributed to the control, containment, reduction, and abatement of atmospheric pollution and contamination and water pollution and disposal of solid waste in the Commonwealth of Kentucky; and

WHEREAS, in connection with the issuance of the Refunded 2007 Series A Bonds, the right was reserved to the Issuer, upon direction by the Company, to redeem the Refunded 2007 Series A Bonds in advance of their maturity; and the Refunded 2007 Series A Bonds are by their terms subject to redemption at the option of the Issuer in whole or in part on and after June 1, 2017, at the price of 100% of the aggregate principal amount thereof and accrued interest, if any, to their redemption date, as provided in the 2007 Series A Indenture; and the immediate redemption and discharge of the Refunded 2007 Series A Bonds will result in benefits to the general public and the Company and should be carried out forthwith in the public interest by the issuance by the Issuer of the 2017 Series A Bonds, and the application of the proceeds of the 2017 Series A Bonds, together with funds to be provided by the Company, for, among other things, the refunding, payment, and discharge of the Refunded 2007 Series A Bonds on or before the 90th day from the Issuance Date of the 2017 Series A Bonds; and

WHEREAS, pursuant to and in accordance with the provisions of the Act and an Ordinance duly adopted by the Fiscal Court of the Issuer on April 17, 2017, and in furtherance of the purposes of the Act, the Issuer proposes to issue, sell, and deliver its 2017 Series A Bonds, the proceeds of which will be lent to the Company to cause the outstanding principal amount of the Refunded 2007

Series A Bonds to be refunded, paid, and discharged in full on or before the 90th day from the Issuance Date; and

WHEREAS, the 2017 Series A Bonds are to be issued under and pursuant to and are to be secured by the Indenture of Trust dated as of June 1, 2017 by and between the Issuer and U.S. Bank National Association, as trustee (the “**Trustee**”);

NOW, THEREFORE for and in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree each with the other, as follows:

ARTICLE I DEFINITIONS

Section 1.1. Definitions. The terms used in this Loan Agreement, except as otherwise defined herein and unless the context requires otherwise, have the meanings set forth in the Indenture. All accounting terms not otherwise defined in the Indenture or herein have the meanings assigned to them in accordance with generally accepted accounting principles then in effect.

ARTICLE II REPRESENTATIONS, WARRANTIES, AND COVENANTS

Section 2.1. Representations, Warranties, And Covenants By The Issuer. The Issuer represents, warrants, and covenants that:

(a) The Issuer is a public body corporate and politic duly created and existing as a county and de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky and, pursuant to the Act, the Issuer has the power and duty to issue the 2017 Series A Bonds, to enter into this Agreement, the Indenture, and the transactions contemplated hereby, and to carry out its obligations hereunder and thereunder. The Issuer is not in default under or in violation of the Constitution or any of the laws of the Commonwealth of Kentucky relevant to the issuance of the 2017 Series A Bonds or the consummation of the transactions contemplated hereby or in connection with such issuance, and has been duly authorized to issue the 2017 Series A Bonds and to execute and deliver this Agreement and the Indenture. The Issuer agrees that it will do or cause to be done in a timely manner all things necessary to preserve and keep in full force and effect its existence and to carry out the terms of this Agreement.

(b) The Issuer agrees to loan funds derived from the sale of the 2017 Series A Bonds to the Company to provide for the refunding, payment, and discharge of the outstanding principal amount of the Refunded 2007 Series A Bonds and to the end that air and water pollution be abated and controlled and solid waste disposed of at the Project Site.

(c) To accomplish the foregoing, the Issuer agrees to issue \$60,000,000 aggregate principal amount of its 2017 Series A Bonds following the execution of this Agreement on the terms and conditions set forth in the Indenture. The proceeds from the sale of the 2017 Series A Bonds shall be allocated and applied exclusively and in whole to refund, pay, and discharge the respective outstanding principal amount of the Refunded 2007 Series A Bonds on or before the 90th day from the Issuance Date.

(d) The Issuer will cooperate with the Company and take all actions necessary for the Company to comply with Section 2.2(m), (q), and (t) hereof and take other actions reasonably requested by the Company in furtherance of this Agreement.

(e) The Project Site is located within the Issuer's jurisdictional boundaries.

Section 2.2. Representations, Warranties, And Covenants By The Company. The Company represents, warrants, and covenants that:

(a) The Company (1) is a corporation duly incorporated, validly existing, and in good standing under the laws of the Commonwealth of Kentucky; (2) is duly qualified, authorized, and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business; and (3) is not in violation of any provision of its Articles of Incorporation, its Bylaws, or any laws of the Commonwealth of Kentucky relevant to the transactions contemplated hereby or in connection with the issuance of the 2017 Series A Bonds.

(b) The Company has full and complete legal power and authority to execute and deliver this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds to be issued pursuant thereto, and has by proper corporate action duly authorized the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds.

(c) The Project currently refinanced by application of the proceeds of the Refunded 2007 Series A Bonds and Company funds was designed and constructed to control, contain, reduce, and abate air and water pollution and dispose of solid waste at the Project Site. The Project was and is necessary for the public health and welfare and has been designed solely for the purposes of controlling air and water pollution and disposal of solid waste and the Project constitutes air and water pollution control facilities and solid waste disposal facilities and facilities functionally related and subordinate to such facilities under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

(d) All of the proceeds of the 2017 Series A Bonds, exclusive of accrued interest, if any, shall be used on or before the 90th day from the Issuance Date exclusively and only to redeem, pay, and discharge the principal of the Refunded 2007 Series A Bonds, not less than substantially all of the net proceeds of the Refunded 2007 Series A Bonds (i.e., at least 90% of the net proceeds thereof, including investment income thereon) were used to refinance the Cost of Construction of air and water pollution control facilities and solid waste disposal facilities originally financed using the proceeds of the Refunded 1982 Series B Bonds, and subsequently refinanced using the proceeds of the Refunded 1987 Series A Bonds, and the Refunded 1987 Series A Bonds were refinanced with the proceeds of the Refunded 1992 Series A Bonds, and the Refunded 1992 Series A Bonds were refinanced with the proceeds of the Refunded 2007 Series A Bonds, together with facilities functionally related and subordinate to such facilities, and all of such air and water pollution control facilities and solid waste disposal facilities consist either of land or of property of a character subject to the allowance for depreciation provided in Code Section 167. The Company will provide any additional moneys required to pay and discharge the Refunded 2007 Series A Bonds within 90 days following the Issuance Date.

(e) The Project is of the type authorized and permitted by the Act, and the Cost of Construction of the Project was not less than \$60,000,000. All statements of fact contained herein respecting the Trimble County Generating Station, including the Project, which is an integral component of the Trimble County Generating Station, and the Issuer's authorization of the Project, including the Project's construction, Trimble County Generating Station expenditures, including

Project expenditures, and construction and acquisition contracts and related matters are true and correct in all respects and are incorporated herein.

(f) No Event of Default, and no event of the type described in clauses (a) through (e) of Section 9.1 hereof, has occurred and is continuing and no condition exists which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject which would impair in any material respect its ability to carry out its obligations under this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, or the transactions contemplated hereby or thereby. Neither the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, the consummation of the transactions contemplated hereby or thereby or by the Indenture, nor the fulfillment of or compliance with the terms and conditions hereof or thereof conflicts with or results in a breach of the terms, conditions, or provisions of any corporate restriction or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge, or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

(g) The Company intends to continue to operate or cause the Project to be operated as air and water pollution control facilities and solid waste disposal facilities and facilities functionally related and subordinate thereto until all of the 2017 Series A Bonds are paid and discharged.

(h) No portion of the proceeds of 2017 Series A Bonds will be invested at a yield in excess of the yield on the 2017 Series A Bonds except: (1) during any permitted temporary period provided by the Code; (2) proceeds of a reasonably required reserve or replacement fund; and (3) as part of a minor portion of the proceeds of the 2017 Series A Bonds, not in excess of the lesser of 5% of the proceeds of the 2017 Series A Bonds or \$100,000. As used herein, "yield" shall have the meaning assigned to it for purposes of Code Section 148.

(i) No portion of the proceeds from the sale of the 2017 Series A Bonds will be deposited to the account of any reasonably required reserve or replacement fund or used to pay any costs of issuance of the 2017 Series A Bonds or any redemption premium or accrued interest on the Refunded 2007 Series A Bonds, but such proceeds will be applied and used solely and exclusively to refund, pay, and discharge the outstanding principal amount of the Refunded 2007 Series A Bonds on or before the 90th day after the Issuance Date.

(j) The Company will provide any additional moneys, including investment proceeds of the 2017 Series A Bonds, required for the payment and discharge of the Refunded 2007 Series A Bonds, payment of redemption premium, if any, and accrued interest in respect thereto and payment of all underwriting discount and costs of issuance of the 2017 Series A Bonds. Any investment proceeds of the 2017 Series A Bonds allocated to the Project shall be used exclusively to pay interest or redemption premium due, if any, on the Refunded 2007 Series A Bonds on the Redemption Date.

(k) The Company will cause no investment of 2017 Series A Bond proceeds to be made and will make no other use of or omit to take any action with respect to the proceeds of the 2017 Series A Bonds or any funds reasonably expected to be used to pay the 2017 Series A Bonds which will cause the 2017 Series A Bonds or any of them to be “arbitrage bonds” within the meaning of Code Section 148 or would otherwise result in the loss or impairment of the exclusion of the interest on such 2017 Series A Bonds from gross income for federal income tax purposes.

(l) The average maturity of the 2017 Series A Bonds does not exceed one hundred twenty percent (120%) of the average reasonably expected remaining economic life (as of the Issuance Date) of the Project refinanced by the proceeds of the 2017 Series A Bonds.

(m) The Company will provide all information requested by the Issuer necessary to evidence compliance with the requirements of the Code, including the information in United States Internal Revenue Service Form 8038 to be filed by the Issuer with respect to the 2017 Series A Bonds and the air and water pollution control facilities and solid waste disposal facilities constituting the Project, and such information will be true and correct in all material respects.

(n) Within the meaning of Code Section 149, no portion of the payment of the principal or interest on the 2017 Series A Bonds, or the Refunded 2007 Series A Bonds was or shall be guaranteed directly or indirectly by the United States or any agency or instrumentality thereof.

(o) All of the proceeds of the Refunded 1982 Series B Bonds, the Refunded 1987 Series A Bonds, the Refunded 1992 Series A Bonds, and the Refunded 2007 Series A Bonds have been fully expended and the Project has been completed. All of the actual Cost of Construction of the Project represent amounts paid or incurred which were properly chargeable to the capital account of the Project or would have been so chargeable either with a proper election by the Company or but for a proper election by the Company to deduct such amounts. Substantially all (i.e. at least 90%) of the net proceeds of the sale of the Refunded 1982 Series B Bonds (including investment income therefrom), were used to finance Costs of Construction of the Project as described above, pay costs and expenses of issuing the Refunded 1982 Series B Bonds, within then applicable Code limits, and pay interest and carrying charges on the Refunded 1982 Series B Bonds during the period of construction of the Project and before the date the Project was placed in service. Substantially all (i.e. at least 90%) of the net proceeds of the sale of the Refunded 1987 Series A Bonds (including proceeds of the Refunded 1982 Series B Bonds constituting transferred proceeds of the 1987 Series A Bonds), were used to finance or refinance Costs of Construction of the Project as described above.

(p) All of the depreciable properties which were taken into account in determining the qualifying costs of the Project constitute properties either: (1) used for the control, containment, reduction, and abatement of atmospheric pollution and contamination and water pollution and collection, storage, treatment, processing and final disposal of solid wastes; or (2) facilities which are functionally related and subordinate to the facilities constituting the Project. All of such functionally related and subordinate facilities are of a size and character commensurate with the size and character of the facilities constituting the Project.

(q) The Company will cause the Issuer to comply in all respects with the requirements of Code Section 148 in respect of the rebate of Excess Earnings with respect to the 2017 Series A Bonds to the United States of America.

(r) None of the proceeds of the 2017 Series A Bonds will be applied and none of the proceeds of the Refunded 1982 Series B Bonds, the Refunded 1987 Series A Bonds, the Refunded 1992 Series A Bonds, and the Refunded 2007 Series A Bonds were applied to provide any: (1) working capital; (2) office space (other than office space located on the premises of the Project where not more than a de minimus amount of the functions to be performed are not directly related to the day-to-day operations of the Project); (3) airplane; (4) skybox or other private luxury box; (5) health club facility; (6) facility primarily used for gambling; or (7) store, the principal business of which is the sale of alcoholic beverages for consumption off premises.

(s) Less than twenty-five percent (25%) of the net proceeds of the 2017 Series A Bonds will be applied and less than twenty-five percent (25%) of the net proceeds of the Refunded 1982 Series B Bonds, the Refunded 1987 Series A Bonds, the Refunded 1992 Series A Bonds, and the Refunded 2007 Series A Bonds were applied directly or indirectly to acquire land or any interest therein and no portion of such land, if acquired, was or is to be used for farming purposes. No portion of the proceeds of the 2017 Series A Bonds will be used and no portion of the proceeds of the Refunded 1982 Series B Bonds, the Refunded 1987 Series A Bonds, the Refunded 1992 Series A Bonds, and the Refunded 2007 Series A Bonds were used to acquire existing property or any interest therein with respect to which the Company was not the first user for federal income tax purposes.

(t) Upon the Issuance Date, the Company will have caused the Issuer to comply with the public approval requirements of Code Section 147; and at or following the issuance of the 2017 Series A Bonds, the Company will cause the Issuer to comply with the information reporting requirements of Code Section 149 by the filing of Internal Revenue Service Form 8038 with the United States Internal Revenue Service.

(u) All of the documents, instruments, and written information furnished by the Company on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the 2017 Series A Bonds are true and correct in all material respects as of the date of delivery thereof and did not, as of the date of delivery thereof, omit or fail to state any material facts necessary to be stated therein to make the information provided not misleading.

(v) The proceeds derived from the sale of the 2017 Series A Bonds will be used exclusively and solely to refund the outstanding principal amount of the Refunded 2007 Series A Bonds. The principal amount of the 2017 Series A Bonds does not exceed the outstanding principal amount of the Refunded 2007 Series A Bonds. The redemption of the outstanding principal amount of the Refunded 2007 Series A Bonds with proceeds of the 2017 Series A Bonds will occur not later than 90 days after the Issuance Date. Any earnings derived from the investment of proceeds of the 2017 Series A Bonds will be fully needed and used on such redemption date to pay a portion of the interest accrued and payable on the Refunded 2007 Series A Bonds on such date.

(w) It is not anticipated, as of the date hereof, that there will be created any “replacement proceeds”, within the meaning of Treasury Regulation Section 1.148-1(c) with respect

to the 2017 Series A Bonds; however, if any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Code Section 148.

(x) The Company will not use or cause to be used any of the funds provided by the Issuer hereunder (including the earnings on any of such funds) in such a manner as to, or take or omit to take any action with respect to the use of such funds which would, impair the exclusion of the interest on any of the 2017 Series A Bonds from gross income for federal income tax purposes.

(y) The Company covenants to perform and observe all provisions of the Indenture required to be performed or observed by it.

(z) The Refunded 2007 Series A Bonds were issued on April 26, 2007.

(aa) No construction, reconstruction, or acquisition of the Project, of which the Project is an integral part, was commenced before the taking of official action by the Issuer with respect thereto except for preparation of plans and specifications and other preliminary engineering work.

(bb) The Project, as designed, has been previously certified by the Energy and Environment Cabinet of the Commonwealth of Kentucky (formerly the Natural Resources and Environmental Protection Cabinet), the agency exercising jurisdiction in the premises, to be in furtherance of the purposes of abating or controlling atmospheric pollutants or contaminants and water pollution and disposing of solid wastes.

(cc) Acquisition, construction, and installation of the Project has been accomplished and the Project is being utilized substantially in accordance with the purposes of the Project and in conformity with all applicable zoning, planning, building, environmental, and other applicable governmental regulations and all permits, variances, and orders issued or granted pursuant thereto, which permits, variances, and orders have not been withdrawn or otherwise suspended, and consistently with the Act.

(dd) The Company has used, is currently using, and presently intends to use or operate the Project in a manner consistent with the purposes of the Project and the Act until the date on which the 2007 Series A Bonds have been fully paid and knows of no reason why the Project will not be so operated.

(ee) Except for (i) \$31,000,000 Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) (the “**Louisville Metro 2007 Series A Bonds**”), the entire proceeds of which will currently refund a separate series of bonds of Louisville/Jefferson County Metro Government, Kentucky (“**Louisville Metro**”) and (ii) \$35,200,000 Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) (the “**Louisville Metro 2007 Series B Bonds**”), the entire proceeds of which will currently refund a separate series of bonds of Louisville Metro (the Louisville Metro 2007 Series A Bonds, the Louisville Metro 2007 Series B Bonds, and the 2017 Series A Bonds are hereby defined collectively as the “**2017 Bonds**”), there are no other obligations

heretofore issued or to be issued by or on behalf of any state, territory, or possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia, which (i) were sold less than fifteen days before or after the date of sale of the 2017 Bonds, determined without regard to guarantees from parties unrelated to the obligor as is applicable to the 2017 Bonds. Accordingly, the Company acknowledges and agrees that, pursuant to Treasury Regulation 1.150-1(c), the 2017 Bonds will automatically be treated as a single issue of bonds and, to the extent required by law, elects pursuant to Treasury Regulation 1.150-1(c) that, for purposes of computation of the maturity of the 2017 Bonds, the 2017 Bonds shall be treated as a single issue of bonds.

The Company need not comply with the covenants or representations in this Section 2.2 if and to the extent that the Issuer and the Company receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

ARTICLE III COMPLETION AND OWNERSHIP OF THE PROJECT

Section 3.1. Completion And Equipping Of The Project. The Company represents that it has previously caused components of the Project to be financed, constructed, in whole or in part, and placed in service, as applicable, as herein provided on the Project Site as previously evidenced by the filing of a completion certificate by the Company with Citizens Fidelity Bank and Trust Company (now known as The Bank of New York Mellon Trust Company, N.A.), as Trustee for the Refunded 1987 Series A Bonds.

Section 3.2. Agreement As To Ownership Of The Project. The Issuer and the Company agree that title to and ownership of the Project shall remain in and be the sole property of the Company in which the Issuer shall have no interest. The Project is acknowledged to be subject to the lien of the First Mortgage Indenture. Notwithstanding any other provision hereof, the Company shall be permitted to sell or otherwise dispose of all or any portion of the Project, provided that the Company first receives a Favorable Opinion of Bond Counsel regarding such sale or disposition and provided further that upon any assignment, in whole or in part, of this Agreement, such assignment shall be in accordance with Section 8.1 hereof.

Section 3.3. Use Of The Project. The Issuer does hereby covenant and agree that it will not take any action during the term of this Agreement, other than pursuant to ARTICLE IX of this Agreement or ARTICLE IX of the Indenture, to interfere with the Company's ownership of the Project or to prevent the Company from having possession, custody, use, and enjoyment of the Project.

Section 3.4. Financing Of Additional Facilities. The Company and the Issuer hereby recognize that additional air or water pollution control facilities and solid waste disposal facilities at the Project Site (other than the air and water pollution control facilities and solid waste disposal facilities that constitute the Project) have in the past been and may in the future be acquired, constructed, installed, and equipped at the Project Site, and that same may be financed with proceeds of one or more series of the Issuer's revenue bonds issued in addition to the 2017 Series A Bonds issued pursuant to the Indenture, to the extent permitted by law.

ARTICLE IV
ISSUANCE OF 2017 SERIES A BONDS; APPLICATION OF PROCEEDS

Section 4.1. Agreement To Issue 2017 Series A Bonds; Application Of 2017 Series A Bond Proceeds . In order to provide funds to make the Loan, the Issuer will issue, sell, and deliver the 2017 Series A Bonds to the initial purchasers thereof and deposit the proceeds thereof with the Trustee into the Prior 2007 Series A Bond Fund held by the Prior 2007 Series A Trustee, for the benefit and payment of the Refunded 2007 Series A Bonds, in an amount equal to the then outstanding principal amount of the Refunded 2007 Series A Bonds.

Section 4.2. Payment And Discharge Of Refunded 2007 Series A Bonds . The Company covenants and agrees with the Issuer that it will, on or before the Issuance Date, give irrevocable instructions to the Prior 2007 Series A Trustee to call and redeem the Refunded 2007 Series A Bonds in accordance with their terms and on or before the Issuance Date will deposit into the Prior 2007 Series A Bond Fund cash or Governmental Obligations (as defined in the 2007 Series A Indenture) sufficient on the Issuance Date, to fully defease and discharge the Refunded 2007 Series A Bonds on the Issuance Date in accordance with ARTICLE VIII of the 2007 Series A Indenture, without reference to any interest earnings to be accrued during the period from the Issuance Date to the redemption date of the Refunded 2007 Series A Bonds. Such matters shall be confirmed by issuance of an appropriate written certificate of the Prior 2007 Series A Trustee confirming defeasance and full discharge of the Refunded 2007 Series A Bonds upon the Issuance Date.

Section 4.3. Investment Of Moneys In The Bond Fund And The Rebate Fund . Moneys held as a part of the Bond Fund or the Rebate Fund shall be invested or reinvested by the Trustee, at the written request of and as specifically directed by the Company, in one or more Permitted Investments. If the Trustee is not provided with written investment instructions, the Trustee shall hold such amounts uninvested in cash, without liability for interest. The written investment directions provided to the Trustee shall constitute a certification of the Company that such investments constitute Permitted Investments. The Trustee may make any and all such investments through its own investment department.

Any such investments shall be held by or under the control of the Trustee. All moneys invested shall be deemed at all times a part of the fund for which such investments were made. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to such fund, and any loss resulting from such investments shall be charged pro rata to such fund. The Trustee shall sell and reduce to cash a sufficient amount of applicable investments whenever the cash balance in the Bond Fund is insufficient to pay the principal of, premium, if any, and interest on the 2017 Series A Bonds or any other amount payable from the Bond Fund when due or upon any required disbursement from the Rebate Fund, respectively. The Trustee will not be liable for any investment loss (including any loss upon a sale of any investment) or any fee, tax, or other charge in respect of any investments, reinvestments, or any liquidation of investments made pursuant to this Agreement or the Indenture. The Rebate Fund shall never be commingled with any other fund or account.

To the extent permitted by applicable law, the Company and the Issuer each specifically waives compliance with 12 C.F.R. § 12 and hereby notify the Trustee that no brokerage confirmations need to be sent relating to the security transactions as they occur. Notwithstanding the foregoing, to the extent the Trustee receives and invests amounts in the Bond Fund and the Rebate Fund, the Trustee shall provide the Company and the Issuer with periodic cash transaction statements which shall include details of all investment transactions made by the Trustee with respect to such accounts.

Section 4.4. Special Arbitrage Certifications.

(a) The Company covenants and agrees that it will not take or authorize or permit any action to be taken and has not taken or authorized or permitted any action to be taken which results or would result in interest paid on any of the 2017 Series A Bonds being included in gross income of any owner thereof for purposes of federal income taxation (other than an owner who is a “substantial user” of the Project or a “related person” within the meaning of Code Section 147(a)) or adversely affects the validity of the 2017 Series A Bonds.

(b) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2017 Series A Bonds will not be used in any manner that would cause the 2017 Series A Bonds to be “arbitrage bonds” under Code Sections 103(b)(2) and 148 and other applicable sections thereof. To the best knowledge and belief of the Company, there are no facts, estimates, or circumstances that would materially change the foregoing conclusion.

(c) The Company hereby covenants that it will at all times comply and cause the Issuer to comply with the provisions of Section 148 and other applicable sections of the Code and will restrict the use of the proceeds of the 2017 Series A Bonds, in such manner and to such extent, if any, as may be necessary, and remit Excess Earnings with respect to all of the 2017 Series A Bonds, if any, to the United States of America pursuant to Code Section 148(f)(2) and carry out such actions so that the 2017 Series A Bonds will not constitute “arbitrage bonds” under Code Sections 103(b)(2) and 148. An officer or officers of the Issuer having responsibility with respect to the issuance of the 2017 Series A Bonds is or are hereby authorized and directed to give an appropriate certificate of the Issuer, for inclusion in the transcript of proceedings for the 2017 Series A Bonds, setting forth the reasonable expectations of the Issuer regarding the amount and use of the proceeds of the 2017 Series A Bonds and the facts, estimates, and circumstances on which they are based and related matters, all as of the date of delivery of and payment for the 2017 Series A Bonds pursuant to said Code Section 148. The Company shall provide the Issuer, and the Issuer’s certificate may be expressly based on, a certificate of the Company setting forth the facts, estimates, circumstances, and reasonable expectations of the Company on the date of delivery of and payment for the 2017 Series A Bonds regarding the amount and use of the proceeds of the 2017 Series A Bonds and related matters. If any such representation of the Company relied upon by the Issuer is untrue or inaccurate and the Issuer thereby suffers costs or damages, the Company shall indemnify the Issuer for any such costs or damages.

(d) Consistent with the foregoing, the Company covenants and certifies to the Issuer and to and for the benefit of the purchasers of the 2017 Series A Bonds, that no use will be made of the proceeds of the sale of the 2017 Series A Bonds which would cause the 2017 Series A Bonds to be classified as “arbitrage bonds” within the meaning of Code Sections 103(b)(2) and 148

and that the Company and the Issuer will, after issuance of the 2017 Series A Bonds, comply with the provisions of the Code at all times, including after the 2017 Series A Bonds are discharged, to the extent Excess Earnings with respect to the 2017 Series A Bonds are required to be rebated to the United States of America pursuant to Code Section 148(f)(2). Pursuant to such covenant, the Issuer and the Company obligate themselves throughout the term of this Agreement and thereafter not to violate the requirements of Code Section 148.

(e) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2017 Series A Bonds will be applied and invested in compliance with the current requirements of Code Section 149(g) and that consequently the 2017 Series A Bonds will not be “hedge bonds” under such Code Section 149(g).

(f) The Company hereby covenants and agrees that it will at all times comply with the provisions of Code Section 148, including Section 148(f) and with Section 6.06 of the Indenture. Specifically, the Company shall carry out, do, and perform all acts stipulated to be performed by the Company pursuant to Section 6.06 of the Indenture. The Company shall further undertake to assure and cause rebate payments, if any, to be calculated and made to the United States of America in accordance with Code Section 148(f)(2) from moneys on deposit in the Rebate Fund from time to time after the end of each Computation Period and following discharge of the 2017 Series A Bonds. The Company also covenants to take all necessary acts and steps as required to cause the Issuer to comply with the provisions of Sections 7.02 and 7.03 of the Indenture.

Section 4.5. Opinion Of Bond Counsel. The Company need not comply with the covenants or representations in Section 4.4 hereof if and to the extent that the Issuer and the Company (with a copy to the Trustee) receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

Section 4.6. First Mortgage Bonds. The Company covenants and agrees with the Issuer that it will, for the purpose of providing security for the 2017 Series A Bonds, execute and deliver to the Trustee the First Mortgage Bonds in aggregate principal amount equal to the aggregate principal amount of the 2017 Series A Bonds. The First Mortgage Bonds shall mature as to principal identically as in the case of the 2017 Series A Bonds and, upon the giving of a Redemption Demand to the First Mortgage Trustee and completion of other conditions precedent set forth in the First Mortgage Indenture Supplement, shall bear interest as provided in the First Mortgage Indenture Supplement.

Upon the occurrence of an Event of Default under ARTICLE IX of this Agreement, that has resulted in a default in payment of the principal of, premium, if any, or interest on the 2017 Series A Bonds as and when the same come due, whether at maturity, redemption, acceleration, or otherwise, or a default in payment of the purchase price of any 2017 Series A Bond tendered for purchase, the acceleration of the maturity date of the 2017 Series A Bonds (to the extent not already due and payable) as a consequence of such Event of Default and the receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee, the First Mortgage Bonds shall bear interest, and principal and interest thereon will be payable, in accordance with the provisions specified in the First Mortgage Indenture Supplement.

Upon payment of the principal of, premium, if any, and interest on any of the 2017 Series A Bonds, whether at maturity or before maturity by redemption or otherwise, and the surrender thereof to, and cancellation thereof by, the Trustee, or upon provision for the payment thereof having been made in accordance with the provisions of ARTICLE VIII of the Indenture, First Mortgage Bonds in an amount equal to the aggregate principal amount of the 2017 Series A Bonds so surrendered and cancelled or for the payment of which provision has been made shall be deemed fully paid and the obligations of the Company thereunder terminated and such First Mortgage Bonds shall be surrendered by the Trustee to the First Mortgage Trustee, and shall be cancelled by the First Mortgage Trustee. All of the First Mortgage Bonds shall be registered in the name of the Trustee and shall be non-transferable, except to effect transfers to any successor trustee under the Indenture.

ARTICLE V PROVISIONS FOR PAYMENT

Section 5.1. Loan Payments And Other Amounts Payable.

(a) The Company hereby covenants and agrees to repay the Loan, as follows: on or before any Interest Payment Date for the 2017 Series A Bonds or any other date that any payment of interest, premium, if any, purchase price, or principal is required to be made in respect of the 2017 Series A Bonds at the times specified in accordance with the more specific provisions and requirements of the Indenture, until the principal of, premium, if any, and interest on the 2017 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, it will pay to the Trustee, for disbursement by the Trustee, as Paying Agent, or for disbursement by any Paying Agent such sums which will enable the Paying Agent to pay the amounts payable on such date, in immediately available funds, as principal of (whether at purchase, maturity, or upon redemption, acceleration, or otherwise), premium, if any, and interest on the 2017 Series A Bonds as provided in the Indenture; provided that such payments by the Company to enable the Tender Agent to pay the purchase price of 2017 Series A Bonds shall be made within the times required by Section 3.06 of the Indenture. It is understood and agreed that all payments payable by the Company under this Section 5.1(a) are assigned by the Issuer to the Trustee, the Paying Agent, and the Tender Agent, as applicable, for the benefit of the Holders. The Company assents to such assignment. The Issuer hereby directs the Company and the Company hereby agrees to pay to the Trustee or the Paying Agent or the Tender Agent, as appropriate, at the Designated Office of the Trustee or the Paying Agent or the Tender Agent, as appropriate, all payments payable by the Company pursuant to this Section 5.1(a).

(b) The Company will also pay the reasonable expenses of the Issuer related to the issuance of the 2017 Series A Bonds and incurred upon the request of the Company.

(c) The Company will also pay the agreed upon fees and expenses of the Trustee (including those referred to in Section 10.02 of the Indenture), the Bond Registrar, the Tender Agent, and the Paying Agent under the Indenture and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent, and the Tender Agent, as applicable from time to time, under the Indenture, such amounts to be paid directly to the Trustee, the Bond Registrar, the Paying Agent,

and the Tender Agent for their respective own accounts as and when such amounts become due and payable.

(d) The Company further agrees to hold harmless the Trustee, the Bond Registrar, and the Paying Agent against any loss, liability, or expense, including reasonable attorneys' fees and expenses, incurred by it without negligence or bad faith on its part in connection with the issuance of the 2017 Series A Bonds or the acceptance or administration of the trusts under the Indenture, including the costs of defending itself against any claim or liability in connection therewith.

(e) The Company covenants, for the benefit of the Holders, if applicable, to pay or cause to be paid, to the Tender Agent for deposit in the Purchase Fund, such amounts as shall be necessary to enable the Tender Agent to pay the Purchase Price of 2017 Series A Bonds delivered to it for purchase, all as more particularly described in Sections 3.04 and 3.06 of the Indenture, and, in that regard, it will maintain an account with the Tender Agent and will pay in immediately available funds, a sum which will enable the Tender Agent to pay the purchase price of 2017 Series A Bonds delivered to it for purchase, as provided in the Indenture.

(f) If the Company should fail to make any of the payments required in this Section 5.1, the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon, to the extent permitted by law, from the date when such payment was due to the date of payment.

Section 5.2. Payments Assigned. As set forth in Section 5.1 hereof, it is understood and agreed that this Agreement and all payments made by the Company pursuant to this Agreement (except payments pursuant to Section 5.1(b) and (c) hereof or pursuant to Section 8.2 hereof) are assigned by the Issuer to the Trustee. The Company assents to such assignment and hereby agrees that, as to the Trustee, the Paying Agent, and the Tender Agent, as applicable from time to time, its obligation to make such payments shall be absolute, irrevocable, and unconditional and shall not be subject to cancellation, termination, or abatement or to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach by any party, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing by any party. Except as provided above, the Issuer hereby directs the Company and the Company hereby agrees to pay directly to the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent, and the Issuer, as appropriate, all said payments payable by the Company pursuant to Section 5.1 hereof.

Section 5.3. Taxes And Other Governmental Charges. The Company agrees to pay during the term of this Agreement, as the same respectively become due, all taxes, assessments, and other governmental charges of any kind whatsoever that may at any time be lawfully assessed, levied, or charged against or with respect to the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as may have become due and provided further that nothing herein shall be construed as obligating the Company to pay taxes on any interest or principal on the 2017 Series A Bonds disbursed to the Holders.

The Company may, at its expense and in its own name, in good faith contest any such taxes, assessments, and other governmental charges and, upon any such contest, may permit the taxes, assessments, or other governmental charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless, in the opinion of its counsel, by nonpayment of any such items the security provided pursuant to the provisions of the Indenture will be materially endangered, in which event such taxes, charges for payments in lieu of taxes, assessments, or other governmental charges shall be paid forthwith. The Issuer will cooperate fully with the Company in any such contest. If the Company shall fail to pay any of the foregoing items required by this Section 5.3 to be paid by the Company, the Issuer or the Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Company to the one making the advancement, which amounts, together with interest thereon the Company agrees to pay at a rate which shall be one percent above the lowest minimum lending rate publicly quoted at such time as being charged by any commercial bank which is a member of the New York Clearing House on 90-day commercial loans to its prime commercial borrowers or the maximum rate permitted by law, whichever is lesser, until paid; but no such advancement shall operate to relieve the Company from any default hereunder. The Company may at its expense and in its own name and behalf apply for any tax exemption or exemption from payments in lieu of taxes allowed by the Commonwealth of Kentucky, or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant any such tax exemption or exemption from payments in lieu of taxes.

Section 5.4. Obligations Of The Company Unconditional. The obligation of the Company to make the payments pursuant to this Agreement and to make any payments required in respect of the Rebate Fund as provided in Section 6.06 of the Indenture shall be absolute and unconditional. Until such time as the principal of, premium, if any, and interest on the 2017 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Company (a) will not suspend or discontinue any payments pursuant to this Agreement; and (b) except as provided in ARTICLE X hereof, will not terminate this Agreement for any cause including failure of title to the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, destruction of, or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Kentucky or any political subdivision thereof or any failure of the Issuer or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Agreement. Nothing contained in this Section 5.4 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and if the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall be in accordance with the agreements on the part of the Company contained in the preceding sentence. The Company may, however, at its own cost and expense and in its own name or in the name of the Issuer, prosecute or defend any action or proceeding or take any other action involving third persons which the Company deems reasonably necessary in order to secure or protect its right of ownership, possession, occupancy, and use of the Project, and in such event the Issuer hereby agrees to cooperate fully with the Company.

Section 5.5. Rebate Fund. The Company agrees to make all payments to the Trustee and rebate all amounts to the United States of America as are required of it under the Code and the Indenture. The obligation of the Company to make such payments shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the Indenture.

Section 5.6. Redemption Of The 2017 Series A Bonds In Advance of Scheduled Maturity. Under the terms of the Indenture, the 2017 Series A Bonds are and will be subject to redemption before their scheduled maturity. The Issuer and the Company agree that, if and when the Company shall direct the Trustee to redeem and call 2017 Series A Bonds, it shall do so on behalf of the Issuer.

Section 5.7. Cancellation Of 2017 Series A Bonds. The cancellation by the Bond Registrar of any 2017 Series A Bond or Bonds purchased by the Company and delivered to the Bond Registrar for cancellation or of any 2017 Series A Bond or Bonds redeemed or purchased by the Issuer through funds other than funds received as Loan payments hereunder shall constitute a Loan payment equal to the principal amount of the 2017 Series A Bond or Bonds so cancelled.

ARTICLE VI MAINTENANCE; DAMAGE, DESTRUCTION, AND CONDEMNATION; USE OF NET PROCEEDS; INSURANCE

Section 6.1. Maintenance. So long as any 2017 Series A Bond is Outstanding, the Company will maintain, preserve, and keep the Project, or cause the Project to be maintained, preserved, and kept, in good repair, working order, and condition and will from time to time make or cause to be made all proper repairs, replacements, and renewals necessary to continue to constitute the Project as Environmental Facilities; provided, however, that the Company will have no obligation to maintain, preserve, keep, repair, replace, or renew any element or portion of the Project (a) the maintenance, preservation, keeping, repair, replacement, or renewal of which becomes uneconomical to the Company because of damage or destruction by a cause not within the control of the Company, or condemnation of all or substantially all of the Project or the generating facilities to which the element or unit of the Project is an adjunct, or obsolescence (including economic obsolescence), or change in government standards and regulations, or the termination by the Company of the operation of the generating facilities to which the element or unit of the Project is an adjunct, and (b) with respect to which the Company has furnished to the Issuer and the Trustee a certificate executed by the Company Representative certifying that the maintenance, preservation, keeping, repair, replacement, or renewal of such element or unit of the Project is being discontinued for one of the foregoing reasons, which shall be stated therein, and that the discontinuance of such element or unit will not adversely affect the exclusion of interest on any of the 2017 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a).

The Company shall have the privilege at its own expense of remodeling the Project or making substitutions, modifications, and improvements to the Project from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications, and improvements shall be included under the terms of this Agreement as part of the Project;

provided, however, that the Company shall take no actions which will change or alter the basic nature of the Project as Environmental Facilities.

If, before full payment of all 2017 Series A Bonds outstanding (or provision for payment thereof having been made in accordance with the provisions of the Indenture), the Project or any portion thereof is destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project or any portion thereof shall have been taken by the exercise of the power of eminent domain, and the Issuer, the Company, or the First Mortgage Trustee receives Net Proceeds from insurance or any condemnation award in connection therewith, the Company (unless it shall have exercised its option to prepay the Loan pursuant to provisions of Section 10.1(b) or (c) hereof) shall, subject to compliance with the terms of the First Mortgage Indenture, either (i) cause such Net Proceeds to be used to repair, reconstruct, restore, or improve the Project; (ii) take any action, including causing the redemption of the 2017 Series A Bonds, in whole or in part, on any date which is a Business Day, which, in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on any of the 2017 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a) provided that if a Credit Facility is then in effect with respect to the 2017 Series A Bonds, the Company shall reimburse the applicable Credit Facility Issuer for drawings under such Credit Facility for such redemption; provided further that if the 2017 Series A Bonds bear interest at the Flexible Rate or the Semi-Annual Rate, such redemption must occur on a date on which the 2017 Series A Bonds are otherwise subject to optional redemption.

Section 6.2. Insurance. The Company agrees to insure the Project at all times in accordance with the First Mortgage Indenture.

ARTICLE VII SPECIAL COVENANTS

Section 7.1. No Warranty Of Condition Or Suitability By The Issuer. The Issuer makes no warranty, either express or implied, as to the Project or that it will be suitable for the Company's purposes or needs.

Section 7.2. The Company To Maintain Its Corporate Existence; Conditions Under Which Exceptions Are Permitted. The Company agrees that during the term of this Agreement it will maintain its existence and good standing, will continue to be a corporate entity organized under the laws of the Commonwealth of Kentucky or qualified and admitted to do business in the Commonwealth of Kentucky, and will neither dispose of all or substantially all of its assets nor consolidate with nor merge into another entity unless the acquirer of its assets or the entity with which it shall consolidate or into which it shall merge, (a) shall be a corporation or other business organization organized and existing under the laws of the United States or one of the states of the United States of America or the District of Columbia; (b) shall be qualified and admitted to do business in the Commonwealth of Kentucky; (c) shall assume in writing all of the obligations and covenants of the Company herein; and (d) shall deliver a copy of such assumption to the Issuer and the Trustee.

Section 7.3. Financial Statements. The Company agrees to furnish the Trustee (within 120 days after the close of each fiscal year) with an audited balance sheet and statements of income, retained earnings, and changes in cash flows showing the financial condition of the Company and its consolidated subsidiary or subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiary or subsidiaries, if any, for such fiscal year, accompanied by an opinion of its regular independent certified public accountants that such statements fairly represent the financial condition of the Company in accordance with generally accepted accounting principles. The requirements of this Section 7.3 shall be satisfied by the submission to the Trustee of the Company's annual report on Form 10-K. The information so provided to the Trustee shall be kept in its files and is not required to be distributed to any Holder or other Person. Delivery of such reports, information, and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on certifications of the Company).

Section 7.4. Further Assurances And Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention of or facilitating the performance of this Agreement.

Section 7.5. The Issuer Representative. Whenever under the provisions of this Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative and the Company or the Trustee shall be authorized to act on any such approval or action, and the Issuer shall have no redress against the Company or the Trustee as a result of any such action taken.

Section 7.6. The Company Representative. Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative and the Issuer or the Trustee shall be authorized to act on any such approval or action and the Company shall have no redress against the Issuer or the Trustee as a result of any such action taken.

Section 7.7. Financing Statements. The Company shall, to the extent required by law, file and record, refile and rerecord, or cause to be filed and recorded, refiled and rerecorded, all documents or notices, including financing statements and continuation statements, required by law in order to perfect, or maintain the perfection of, the lien of the Indenture. The Issuer shall cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the 2017 Series A Bonds, the Company shall cause to be delivered to the Trustee an opinion of counsel (a) stating that in the opinion of such counsel, either: (i) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices, and financing statements as is necessary to perfect the lien of the Indenture under the Uniform Commercial Code

of the Commonwealth of Kentucky; or (ii) no such action is necessary to so perfect such liens; and (b) stating the requirements for the filing of continuation statements or other documentation or notices in order to maintain the perfection of the lien of the Indenture, which filings the Company agrees to undertake.

Section 7.8. The Company's Performance Under Indenture. The Company agrees, for the benefit of Holders to do and perform all acts and things contemplated in the Indenture to be done and performed by it.

ARTICLE VIII ASSIGNMENT; INDEMNIFICATION; REDEMPTION

Section 8.1. Assignment. This Agreement may be assigned by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee, subject, however, to each of the following conditions:

(a) No assignment (other than pursuant to Section 7.2 hereof) shall relieve the Company from primary liability for any of its obligations hereunder, and upon any such assignment the Company shall remain primarily liable for payments of the amounts specified in Section 5.1 hereof and for performance and observance of the other covenants or agreements on its part herein provided to be performed and observed to the same extent as though no assignment had been made;

(b) The assignee shall assume the obligations of the Company hereunder to the extent of the interest assigned;

(c) The Company shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Issuer and to the Trustee a true and complete copy of each such assignment and assumption of obligation; and

(d) Before such assignment, the Company shall have obtained a Favorable Opinion of Bond Counsel regarding the assignment.

Section 8.2. Release And Indemnification Covenants. The Company releases the Issuer from and covenants and agrees that the Issuer shall not be liable for, and agrees to indemnify and hold the Issuer harmless against, any expense or liability incurred by the Issuer, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof. If any such claim is asserted, the Issuer agrees to give prompt notice to the Company and the Company will assume the defense thereof, with full power to litigate, compromise, or settle the same in its sole discretion, it being understood that the Issuer will not settle or consent to the settlement of the same without the consent of the Company.

Section 8.3. Assignment Of Interest In Agreement By The Issuer. Any assignment by the Issuer to the Trustee pursuant to the Indenture or this Agreement of any moneys receivable under this Agreement shall be subject and subordinate to this Agreement.

Section 8.4. Redemption Of 2017 Series A Bonds. Upon the agreement of the Company to deposit moneys in the Bond Fund in an amount sufficient to redeem 2017 Series A Bonds subject to redemption, the Issuer, at the request of the Company, shall forthwith take all steps (other than the payment of the money required for such redemption) necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part of the 2017 Series A Bonds outstanding, as may be specified by the Company, on the redemption date specified by the Company.

Section 8.5. Reference To 2017 Series A Bonds Ineffective After 2017 Series A Bonds Paid . Upon payment in full of the 2017 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and payment of all amounts required to be paid to the United States of America via the Trustee pursuant to Section 5.5 hereof and payment of all fees and charges of the Trustee (including reasonable attorneys' fees and expenses), the Bond Registrar, the Authenticating Agent, and any Paying Agent, all references in this Agreement to the 2017 Series A Bonds, the First Mortgage Bonds, and the Trustee shall be ineffective and neither the Trustee nor the Holders thereafter have any rights hereunder except as set forth in Section 11.1 hereof.

ARTICLE IX EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events Of Default Defined. The following shall be "Events of Default" under this Agreement and the term "Events of Default" shall mean, whenever it is used in this Agreement, one or more of the following events:

(a) Failure by the Company to pay any amount required to be paid under subsections (a) and (e) of Section 5.1 hereof

which results in failure to pay principal of, premium, or interest on or the purchase price of the 2017 Series A Bonds, and such failure shall cause an Event of Default under the Indenture.

(b) Failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed, other than as referred to in subsection (a) of this Section 9.1, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time before its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if such failure is capable of being cured and corrective action is instituted by the Company within the applicable period and is being diligently pursued.

(c) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking: (1) relief in respect of the Company, or of a substantial part of the property or assets of the Company, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; or (3) the winding-up or liquidation of the Company; and such proceeding or

petition shall continue undismissed or unstayed for 90 days or an order or decree approving or ordering any of the foregoing shall be entered.

(d) The Company shall: (1) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in Section 9.1(c) above; (3) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; (4) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (5) make a general assignment for the benefit of creditors; (6) become unable, admit in writing its inability, or fail generally to pay its debts as they become due; or (7) take any action for the purpose of effecting any of the foregoing.

(e) All bonds outstanding under the First Mortgage Indenture shall, if not already due, have become immediately due and payable, whether by a declaration of the First Mortgage Trustee or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

(f) The occurrence of an Event of Default under the Indenture.

The provisions of Section 9.1(b) hereof are subject to the following limitations: If by reason of force majeure the Company is unable in whole or in part to carry out its agreements on its part herein contained, other than the obligations on the part of the Company contained in Section 2.2(j), Section 2.2(k), Section 4.2, Section 4.4, Section 4.6, or Section 7.2 or ARTICLE V hereof and the general covenant and obligation of the Company to take all necessary actions for the continued exclusion of interest on the 2017 Series A Bonds from gross income for federal and Kentucky income taxes, the Company shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean any cause or event not reasonably within the control of the Company, including acts of God; strikes; wars or national police actions, lockouts or other industrial disturbances; acts of public enemies, including terrorists; orders of any kind of the government of the United States or of the Commonwealth of Kentucky or any of their departments, agencies, or officials, or any civil or military authority; evacuations and quarantines; insurrections; riots; epidemics; plague; famine; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; typhoons; cyclones; volcanic eruptions; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery and transmission lines or pipes; or partial or entire failure of utility services. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements; provided, that the settlement of strikes, lockouts, and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

Section 9.2. Remedies On Default. Whenever any Event of Default referred to in Section 9.1 hereof shall have happened and be continuing, the Trustee may take any one or more of the following remedial steps:

(a) By written notice to the Company, the Trustee, on behalf of the Issuer, may declare an amount equal to the principal and accrued interest on the 2017 Series A Bonds then Outstanding to be immediately due and payable under this Agreement, whereupon the same shall become immediately due and payable.

(b) The Trustee, on behalf of the Issuer, may have access to and inspect, examine, and make copies of the books and records and any and all accounts, data, and income tax and other tax returns of the Company.

(c) The Trustee, on behalf of the Issuer, may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement, including any remedies available in respect of the First Mortgage Bonds.

In case there shall be pending a proceeding of the nature described in Section 9.1(c) or (d) hereof, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors, or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any custodian (including a receiver, trustee, or liquidator) of the Company appointed in connection with such proceedings is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including reasonable counsel fees and expenses incurred by it up to the date of such distribution.

Any amounts collected pursuant to action taken under this Section 9.2 (other than the compensation and expenses referred to in the immediately prior sentence) shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the 2017 Series A Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and all reasonable and necessary fees and expenses of the Trustee and any paying agents accrued and to accrue through final payment of the 2017 Series A Bonds, and all other liabilities of the Company accrued and to accrue hereunder or under the Indenture through final payment of the 2017 Series A Bonds have been paid, such amounts so collected shall be paid to the Company.

Section 9.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to

exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this ARTICLE IX, it shall not be necessary to give any notice other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee, and the Trustee and the Holders, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

Section 9.4. Agreement To Pay Reasonable Attorneys' Fees And Expenses . If the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Section 9.5. Waiver Of Events Of Default. If, after the acceleration of the maturity of the outstanding 2017 Series A Bonds by the Trustee pursuant to the Indenture, and before any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been obtained or entered, the Company shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all 2017 Series A Bonds and the principal of, and premium, if any, on any and all 2017 Series A Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and premium, if any, and overdue installments of interest, at the rate per annum which is one percent above the highest rate borne by any 2017 Series A Bond, until paid), and such amounts as shall be sufficient to cover all expenses of the Trustee in connection with such default, and all defaults under the Indenture and this Agreement, other than nonpayment of principal of 2017 Series A Bonds which shall have become due by said declaration, shall have been remedied, and such Event of Default under the Indenture shall be deemed waived by the Trustee in accordance with Section 9.11 of the Indenture with the consequence that under the Indenture such acceleration is rescinded, then the Company's default hereunder shall be deemed to have been waived by the Issuer and no further action or consent by the Trustee or the Issuer shall be required. If any agreement or covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE X PREPAYMENT OF LOAN

Section 10.1. Options To Prepay Loan. The Company shall have, and is hereby granted, options to prepay the Loan in whole and to cancel or terminate this Agreement on any Business Day at any time the Company so elects, if certain events shall have occurred within the 180 days preceding the giving of written notice by the Company to the Trustee of such election, as follows:

(a) If in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed after the issuance of the 2017 Series A Bonds upon the Company with respect to the Project or the operation thereof, including without limitation federal, state, or other ad valorem, property, income, or other taxes not imposed on the date of this Agreement other than ad valorem taxes presently levied upon privately owned property used for the same general purpose as the Project;

(b) If the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use and such condition shall continue for a period of six months;

(c) There shall have occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use;

(d) If changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment, or other properties or things necessary for the efficient operation of the Trimble County Generating Station of the Company shall have occurred which, in the judgment of the Company, render the continued operation of the Trimble County Generating Station or any generating unit at such station uneconomical; or changes in circumstances, after the issuance of the 2017 Series A Bonds including but not limited to changes in clean air or water or other air and water pollution control requirements or solid waste disposal requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;

(e) If this Agreement shall become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action, whether state or federal, or any final decree, judgment, or order of any court or administrative body, whether state or federal; or

(f) A final order or decree of any court or administrative body after the issuance of the 2017 Series A Bonds shall require the Company to cease a substantial part of its operations at the Trimble County Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such location for a period of six months.

In the case of prepayment pursuant to this Section 10.1 (or if any 2017 Series A Bonds be redeemed in whole or in part pursuant to Section 6.1 hereof), the Loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem all 2017 Series A Bonds then outstanding (or, in the case any 2017 Series A Bonds are redeemed in part pursuant to Section 6.1 hereof, such portion of the 2017 Series A Bonds then outstanding) under the Indenture at a price equal to 100% of the principal amount thereof plus

interest accrued and to accrue to the date of redemption of the 2017 Series A Bonds and to pay all reasonable and necessary fees and expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2017 Series A Bonds. In order to exercise any option to prepay the Loan and to cancel or terminate this Agreement by reason of the occurrence of any of the events mentioned in (a) through (f) above, the Company is required to give written notice to the Trustee of its election to prepay the Loan within 180 days of the occurrence of any of the events mentioned in (a) through (f) above.

Section 10.2. Additional Option To Prepay Loan. The Company shall have, and is hereby granted, further options, to the extent that the 2017 Series A Bonds are, from time to time, subject to optional redemption, during any period of optional redemption, to prepay all, or any portion, of the relevant and applicable Loan payments due or to become due hereunder by depositing with the Trustee moneys sufficient to pay, together with other funds deposited with the Trustee and available for such purpose, the principal of and applicable premium, if any, and accrued interest, through the date of redemption (which must be a Business Day), on all or any portion of the 2017 Series A Bonds then outstanding under the Indenture and, upon depositing with the Trustee moneys sufficient to pay the principal, applicable premium, if any, and accrued interest, through the date of redemption, on all 2017 Series A Bonds then outstanding under the Indenture, as well as all reasonable and necessary expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder, to cancel or terminate the term of this Agreement.

Section 10.3. Obligations To Prepay Loan.

(a) **Mandatory Redemption Upon Determination Of Taxability.** The Company shall be obligated to prepay the entire Loan or any part thereof, as provided below, before the required full payment of the 2017 Series A Bonds (or before making provision for payment thereof in accordance with the Indenture) on the 180th day (or such earlier date as may be designated by the Company), which, in every case, must be a Business Day, upon the occurrence of a Determination of Taxability. The Issuer and the Company shall take all actions required to mandatorily redeem the 2017 Series A Bonds at the cost of the Company upon the terms specified in this Agreement and in ARTICLE IV of the Indenture following the occurrence of a Determination of Taxability, including prepaying appropriate amounts due on the 2017 Series A Bonds in order to effect such redemption. The 2017 Series A Bonds shall be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a Determination of Taxability. For purposes of this Section 10.3, a “**Determination of Taxability**” shall mean the receipt by the Trustee of written notice from a current or former registered owner of a 2017 Series A Bond or from the Company or the Issuer of: (1) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists; or (2) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to

perform or observe any covenant or agreement or the inaccuracy of any representation contained in this Agreement or any other agreement or certificate delivered in connection with the 2017 Series A Bonds, the interest on the 2017 Series A Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of Code Section 147; provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2017 Series A Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2017 Series A Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof; and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense; or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal, or rehearing of such decree, judgment, or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2017 Series A Bond in the computation of minimum or indirect taxes. All of the 2017 Series A Bonds shall be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of the 2017 Series A Bonds of one or more series or one or more maturities would have the result that interest payable on the remaining 2017 Series A Bonds outstanding after the redemption would not be so included in any such gross income.

If the Issuer, the Company, or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit, or other proceedings relating to the 2017 Series A Bonds being conducted by the Internal Revenue Service, the party so put on notice shall give immediate written notice to the other parties of such matters.

Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described in this Section 10.3(a), the Company shall give notice thereof to the Trustee and the Issuer.

(b) In the case of the mandatory obligation of the Company to prepay the Loan or any part thereof after the occurrence of a Determination of Taxability, pursuant to Section 10.3(a) hereof, the Company shall be obligated to prepay such Loan or such part thereof not later than 180 days after any such final determination as specified in Section 10.3(a) hereof and to provide to the Trustee for deposit in the Bond Fund an amount sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem such 2017 Series A Bonds at the price of 100% of the principal amount thereof in accordance with Section 5.1 hereof plus interest accrued and to accrue to the date of redemption of the 2017 Series A Bonds and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2017 Series A Bonds.

(c) If a Determination of Taxability occurs when all or any portion of the 2017 Series A Bonds are owned by any Purchaser, the Company hereby agrees to pay to such Purchaser,

in addition to the redemption price of the 2017 Series A Bonds owned by such Purchaser, the following additional amounts:

(1) an additional amount equal to the difference between (A) the amount of interest paid on the 2017 Series A Bonds during the Taxable Period and (B) the amount of interest that would have been paid on the 2017 Series A Bonds during the Taxable Period had the 2017 Series A Bonds borne interest at the Taxable Rate; and

(2) an amount equal to any interest, penalties on overdue interest, and additions to tax (as referred to in Subchapter A of Chapter 68 of the Code) owed by such Purchaser as a result of an occurrence of a Determination of Taxability.

Section 10.4. Notice Of Prepayment; Redemption Procedures. It is understood and agreed by the parties hereto that in order to exercise an option granted in, or to consummate a mandatory prepayment required by, this ARTICLE X, the Company shall give written notice to the Issuer and the Trustee which notice shall (a) contain the agreement of the Company to deposit moneys in the Bond Fund on or before the redemption date in an amount sufficient to redeem a principal amount of the 2017 Series A Bonds equal to the amount of the prepayment, including, in the case of a prepayment under Section 10.2 hereof, any applicable redemption premium in respect of such 2017 Series A Bonds, and any other amounts required under this Agreement; (b) specify the prepayment date (which must be a Business Day and which shall also be the redemption date); and (c) comply with Section 4.07 of the Indenture regarding the number of days' notice the Company is required to give the Issuer and the Trustee for the redemption of 2017 Series A Bonds bearing interest in the then applicable Interest Rate Mode.

Section 10.5. Relative Position Of This Article And Indenture. The rights and options granted to the Company in this ARTICLE X, except the option granted to the Company pursuant to Section 10.2 to prepay less than all of the Loan payments, shall be and remain prior and superior to the Indenture and may be exercised whether or not the Company is otherwise in default hereunder; provided that such default will not result in nonfulfillment of any condition to the exercise of any such right or option.

Section 10.6. Concurrent Discharge Of First Mortgage Bonds. If any 2017 Series A Bond shall be paid and discharged pursuant to any provision of this Agreement, so that the 2017 Series A Bond is not thereafter Outstanding, a like principal amount of First Mortgage Bonds shall be deemed fully paid and the obligations of the Company thereunder terminated. Thereupon, the Trustee shall deliver to the First Mortgage Trustee such like principal amount of First Mortgage Bonds for cancellation pursuant to Section 2.22 of the Indenture.

ARTICLE XI MISCELLANEOUS

Section 11.1. Term Of Agreement. This Agreement shall remain in full force and effect from the date hereof to and including the later of the Maturity Date, or until such earlier or later time as all of the 2017 Series A Bonds shall have been fully paid (or provision made for such payment pursuant to the Indenture); provided, however, that this Agreement may be cancelled and terminated

before said date if the Company shall prepay all of the Loan pursuant to ARTICLE X hereof; and provided further, however, that all obligations of the Company under ARTICLE V and Section 8.2 hereof: (a) to pay the agreed fees and expenses of the Trustee, the Tender Agent, the Bond Registrar, and any Paying Agent; and (b) to pay any amount required by Section 5.5 hereof shall continue in effect even though 2017 Series A Bonds may no longer be outstanding and this Agreement may otherwise be terminated. All representations and certifications by the Company as to all matters affecting the tax-exempt status of interest on the 2017 Series A Bonds shall be for the equal and ratable benefit, protection, and security of the Holders of the 2017 Series A Bonds and shall survive the termination of this Agreement and all obligations of the Company contained herein relating to indemnification of the Issuer, the Trustee, the Bond Registrar, the Authenticating Agent, the Tender Agent, and any Paying Agent shall survive the termination of this Agreement.

Section 11.2. Notices. All notices, certificates, or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows:

To the Issuer:	County of Trimble, Kentucky P. O. Box 251 123 Church Street Bedford, Kentucky 40006 Attention: County Judge/Executive Telephone: (502) 255 - 7196 Facsimile: (502) 255 - 4618 Email: jp@tcfegov.com
To the Trustee:	U.S. Bank National Association One Financial Square Louisville, Kentucky 40202 Attention: Corporate Trust Department Telephone: (502) 562-6259 Facsimile: (502) 562-6371 Email: amy.anders@usbank.com
To the Company:	Louisville Gas and Electric Company 220 West Main Street Louisville, Kentucky 40202 Attention: Treasurer Telephone: (502) 627-4956 Facsimile: (502) 627-4742 Email: Dan.Arrough@lge-ku.com
If to the Remarketing Agent:	J.P. Morgan Securities LLC 383 Madison Avenue, 8 th Floor New York, New York 10179 Attn: Municipal Short Term Desk Telephone: (212) 834-7224 Facsimile: (917) 456-3541 Email: peter.mccarthy@chase.com

With a Copy to: J.P. Morgan Securities LLC
383 Madison Avenue, 8th Floor
New York, New York 10179
Attn: Ivan Naguit
Telephone: (212) 270-1584
Facsimile: (212) 270-9665
Email: ivan.l.naguit@jpmorgan.com

If to First Mortgage Trustee: The Bank of New York Mellon
500 Ross Street, 12th Floor
Pittsburgh, Pennsylvania 15262
Attn: Corporate Trust Administration
Telephone: (412) 236-1215
Facsimile: (412) 234-8377
Email: leslie.lockhart@bnymellon.com

If to the Tender Agent: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

If to the Paying Agent: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

If to the Bond Registrar: U.S. Bank National Association
One Financial Square
Louisville, Kentucky 40202
Attention: Corporate Trust Department
Telephone: (502) 562-6259
Facsimile: (502) 562-6371
Email: amy.anders@usbank.com

A duplicate copy of each notice, certificate, or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company, and the Trustee may by notice given hereunder designate any further or different addresses to which subsequent notices, certificates, or other communications shall be sent.

Section 11.3. Binding Effect; Bond Counsel Opinions. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company, and their respective successors and assigns, subject, however, to the limitations contained in Section 7.2, Section 8.1, and Section 8.3 hereof.

Section 11.4. Severability. If any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.5. Amounts Remaining In Bond Fund And Rebate Fund. It is agreed by the parties hereto that any amounts remaining in the Bond Fund upon expiration or sooner termination of the term of this Agreement, as provided in this Agreement, after payment in full of the 2017 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and the reasonable and necessary fees and expenses of the Trustee (including reasonable attorneys' fees and expenses) and any Paying Agent in accordance with the Indenture and the payment in full of all other amounts required to be paid under this Agreement or the Indenture, shall belong to and be paid to the Company by the Trustee. Any amounts remaining in the Rebate Fund at such time shall be held, applied, and disbursed strictly and only in accordance with the provisions of Section 6.06 of the Indenture. Following the payment and discharge of the Refunded 2007 Series A Bonds on their redemption date and the making of provision for payment of the Refunded 2007 Series A Bonds not presented for payment, any remaining moneys in the Prior 2007 Series A Bond Fund shall belong to and be paid to Company by the Prior 2007 Series A Trustee.

Section 11.6. Amendments, Changes, And Modifications. After the issuance of the 2017 Series A Bonds and before payment in full of all 2017 Series A Bonds (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), except as otherwise provided in this Agreement or in the Indenture, this Agreement may not be effectively amended, changed, modified, altered, or terminated, and no provision hereof waived, without the written consent of the Trustee, given in accordance with the Indenture.

Section 11.7. Execution In Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.8. Applicable Law. This Agreement shall be construed, and the obligations, rights, and remedies of the parties under this Agreement are to be determined, in accordance with the laws of the Commonwealth of Kentucky without regard to conflicts of laws principles, except to the extent that the laws of the United States of America may prevail.

Section 11.9. Interpretation. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The words "hereof", "herein", "hereto", "hereby" and "hereunder" refer to this entire Agreement. Unless otherwise noted, all Section and Article references are to sections and articles in this Agreement. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or."

Section 11.10. No Pecuniary Liability Of The Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to a pecuniary liability of the Issuer or a charge upon its general credit or taxing powers. In making such covenants, agreements, or provisions, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided.

Section 11.11. Payments Due On Other Than Business Days. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Agreement, shall not be on a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the date provided in this Agreement, and if done on such succeeding Business Day no interest with respect to such payment shall accrue for the period after such nominal date.

(Signature page to follow)

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[SIGNATURE PAGE TO LOAN AGREEMENT]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first written above.

COUNTY OF TRIMBLE, KENTUCKY

(SEAL)

By /s/ Jerry L. Powell
Jerry L. Powell
County Judge/Executive

Attest:

/s/ Susan Barnes
Fiscal Court Clerk

LOUISVILLE GAS AND ELECTRIC COMPANY

(SEAL)

By /s/ Daniel K. Arbough
Daniel K. Arbough
Treasurer

Attest:

/s/ Gerald A. Reynolds
Gerald A. Reynolds
Secretary

400001.156414/1447269.3

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COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF TRIMBLE)

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 22nd day of May, 2017, the foregoing instrument was produced to me in said County by Jerry L. Powell and Susan Barnes, personally known to me and personally known by me to be the County Judge/Executive and the Fiscal Court Clerk, respectively, of the **COUNTY OF TRIMBLE, KENTUCKY**, and acknowledged before me by them and each of them to be their free act and deed as County Judge/Executive and Fiscal Court Clerk of such County, and the act and deed of said County as authorized by an Ordinance of the Fiscal Court of such County.

Witness my hand and seal this 22nd day of May, 2017. My commission expires February 26, 2018.

(Seal)

/s/ Mark S. Franklin
Notary Public
State at Large, Kentucky

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF JEFFERSON)

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 19th day of May, 2017, the foregoing instrument was produced to me in said County by Daniel K. Arbough and Gerald A. Reynolds, personally known to me and personally known by me to be the Treasurer and the Secretary, respectively, of **LOUISVILLE GAS AND ELECTRIC COMPANY**, a corporation incorporated under the laws of the Commonwealth of Kentucky, who being by me duly sworn, did say that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said respective persons acknowledged before me said instrument to be the free act and deed of said corporation and to be their free act and deed as such officers of such corporation.

Witness my hand and seal this 19th day of May, 2017. My commission expires June 21, 2018.

(Seal)

/s/ Betty L. Brinly
Notary Public
State at Large, Kentucky

This Instrument Prepared by:

STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

/s/ Mark S. Franklin
Mark S. Franklin

400001.156414/1447269.3

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EXHIBIT A
DESCRIPTION OF PROJECT

[See attachment]

TRIMBLE COUNTY GENERATING STATION

LOUISVILLE GAS AND ELECTRIC COMPANY

PART I

THE PROJECT

DESCRIPTION OF CERTAIN POLLUTION CONTROL FACILITIES TO SERVE UNIT NO. 1 AND UNIT NO. 2 AT THE TRIMBLE COUNTY GENERATING STATION OF LOUISVILLE GAS AND ELECTRIC COMPANY

ELECTROSTATIC PRECIPITATORS

Two electrostatic precipitators will be installed to serve Units 1 and 2 of the Trimble County Generating Station. Units 1 and 2 of the Trimble County Generating Station will be new coal-fired steam electric generating units, and the precipitators will be installed simultaneously with construction and installation of the generating units themselves. The electrostatic precipitators, together with associated structural supports, ductwork and flue-gas duct system, are solely designed and intended for the removal of flyash and particulates from flue gases exiting the Unit 1 and Unit 2 steam boilers. Ductwork incident to Units 1 and 2 of the Trimble County Generating Station will be designed for the purpose of connecting the coal-fired steam boilers to the precipitators, and thereafter to transport flue gases to a sulphur dioxide removal system following flyash and particulate removal. The precipitators are designed to remove over 99% of particulate emissions and flyash when the steam boilers are being operated. The precipitators operate upon the principle of creation of electromagnetic fields which attract and capture particulate matter (flyash) from the flue gases. The flyash is then removed and conveyed by the water sluice effluent system to either the emergency flyash and sludge storage pond, the ash storage pond or the solid waste processing facilities for ultimate disposal.

COOLING TOWER

A natural draft cooling tower with closed-loop cooling water systems will be provided to serve Units 1 and 2 of the Trimble County Generating Station. The purpose of the cooling tower is to transfer to the atmosphere the heat absorbed by water circulating through the condensers of

Generating Units 1 and 2, which condense low pressure steam discharged from steam-driven turbines. The closed-loop system with cooling tower is designed to minimize the release of heated waters (thermal pollution) to the Ohio River and is required to be installed in order to conform to applicable water pollution control regulations. The described water pollution control and abatement facility consists of the natural draft cooling tower, pumps, circulating water systems, water pipes, motors, blow-down system, structural supports and functionally related and subordinate equipment and facilities.

EFFLUENT DRAIN SYSTEMS AND SEDIMENTATION AND HOLDING BASINS

The effluent drainage system consists of a sedimentation basin equipped with monitoring devices and skimmers to remove oil, and an extensive plant area drain and runoff system which carries polluted liquids into the sedimentation basin. Certain chemical wastes will be diverted to the ash storage and disposal pond. Additionally, to provide holding and treatment of liquid effluents created by coal storage areas and limestone storage areas, a limestone and coal pile run-off retention basin is situated between the plant sewage treatment systems and the fuel oil storage area on the one side and the reactant chemical (limestone) storage area and active coal pile storage area on the other side. The purpose of the limestone and coal pile run-off retention basin is to capture liquid wastes emanating from the reactant chemical piles and active coal piles, together with any effluents emanating from the fuel oil storage area and the sewage treatment systems. The retention basin holds and neutralizes such liquid wastes pending their further treatment and disposal. Following neutralization and treatment, polluted liquids from the limestone and coal pile retention basin flow to the sedimentation basin for further neutralization. The sedimentation retention basin is situated between the limestone and coal pile retention basin and the Ohio River. The sedimentation retention basin prevents the discharge of pollutants into the Ohio River by holding and neutralizing such pollutants pending their final disposal.

SLUDGE PROCESSING AND DISPOSAL FACILITIES

The operation of sulphur dioxide removal systems at the Trimble County Generating Stations will create a substantial amount of sludge wastes. These sludge wastes must be processed by a sludge processing facility into a suitable waste material for landfill disposal. The sludge processing facility will include a flyash collection system which will transport flyash in a dry state from the particulate removal systems (precipitators) to various holding facilities and processing facilities incident to the sludge processing. The sludge wastes from the sulphur dioxide removal systems will be conveyed by pumping from thickener tanks to holding facilities incident to the sludge processing. Thereafter, following dewatering, the sludge wastes will be mixed with flyash waste and a lime catalyst, forming an acceptable solid waste landfill material. The sludge processing facility will be composed of vacuum filters, waste holding silos and facilities, compressors, blowers, mixers, conveyors, structural elements, land, hardening pads, pumps, electrical components, piping, control systems, and functionally related and subordinate facilities and equipment.

A disposal site for the solid waste landfill material resulting from operation of the scrubber sludge processing facility will be developed on property adjacent to the sludge processing facility. The disposal site, consisting of 1,230 acres, is composed of land, a rain water runoff collection basin

and diversion system, water monitoring system, water treatment facility, piping, pumps, electrical components, structural elements, control systems, loading, hauling, spreading, and compaction equipment and functionally related and subordinate facilities and equipment.

ASH STORAGE AND DISPOSAL POND

A large ash storage pond will be constructed and installed, together with appropriate dikes, impervious pond lining, monitoring equipment and other facilities for the purpose of receiving flyash generated by electrostatic precipitators and bottom ash generated by the operation of the coal-fired steam operated generators. The purpose of the ash storage pond is to receive flyash and bottom ash from the operation of the Trimble County Generating Station in order to prevent such air pollutants and solid wastes from being discharged into the environment, including the Ohio River. The ash storage pond will be constantly monitored in order to determine that the impermeability of the ash storage pond remains unimpaired and that no wastes therein are being discharged other than in a controlled manner. Ash wastes in the ash storage pond will be periodically recovered for processing by the sludge processing and disposal facilities or for disposal in the solid waste disposal area adjacent to the Trimble County Generating Plant, consisting of approximately 1,230 acres. The ash storage pond as well as the emergency sludge and flyash storage pond consist of elements including land, transmission facilities to and from the ponds, skimmers, pumps, reclaiming equipment, monitoring equipment and functionally related and subordinate equipment.

EMERGENCY FLYASH AND SLUDGE STORAGE POND

The emergency flyash and sludge storage pond will be provided for the receipt and collection of scrubber sludge and flyash on an emergency basis. This material will be reclaimed on an intermittent basis for processing by the sludge processing facility and for disposal in the solid waste disposal areas adjacent to the Trimble County Generating Plant. The principal components of the emergency flyash and sludge storage pond will be land, facilities for the transmission of sludge and flyash to and from the pond, reclaiming equipment and functionally related and subordinate equipment.

SULPHUR DIOXIDE REMOVAL SYSTEMS; REACTANT RECEPTION, TRANSMISSION AND PREPARATION FACILITIES

Two complete sulphur dioxide removal systems (scrubbers) will be provided for Trimble County Generating Station, Units 1 and 2. Following electrostatic precipitation, flue gases will be transmitted from the electrostatic precipitators directly to the scrubbers, where they will be reacted with a liquefied sodium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with the reactant chemical, with resultant formation of non-commercial sodium sulfite and sodium sulfate waste sludges. The sulphur dioxide scrubbers are designed to remove over 85% of airborne sulphur dioxide, together with a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber systems will be composed of the scrubbers themselves, associated ductwork, structural supports and piping, electric elements, reactive tanks to contain the reactive agents and recycling and thickening tanks from which the resulting sludge wastes are withdrawn for final disposal. There will also be acquired and

installed certain facilities to prepare reactant materials for use in scrubbers by reducing reactant materials to uniform reactant size, together with pumps, mixers, holding and transport tanks and piping.

The reactant chemical is an integral element in the operation of the sulphur dioxide removal systems. The scrubbers will include facilities designed solely for the receipt, transportation and preparation of reactant chemicals for use in the sulphur dioxide removal systems, which are functionally related and subordinate to such sulphur dioxide removal systems. Such facilities consist of river docking and unloading facilities which will be dedicated to and used only in respect of the receipt of reactant chemicals for use in the sulphur dioxide removal systems, together with conveyor facilities to convey the reactant chemicals in a dry state to both the reactant chemical storage area and to the reactant slurry preparation area. Crushing and grinding mechanisms designed to prepare the reactant chemicals for use in the sulphur dioxide removal systems will also constitute a part of the systems.

ASH SLUICE AND WASTE TRANSMISSION FACILITIES

A complete system of above-ground piping will be provided for the purpose of conveying flyash, bottom ash and sludge effluents from the operation of precipitators, boilers and sulphur dioxide removal systems to the ash storage pond, the emergency flyash and sludge storage pond or to dewatering facilities. The waste transmission system is water motivated and will consist of piping, pumps, water transmission and sluice facilities and will be connected to and constitute a functional element of the sulphur dioxide removal systems, the electrostatic precipitators, the ash storage pond and the emergency flyash and sludge storage pond. Water used in the ash sluice systems will be recycled from the disposal ponds to eliminate discharge to the Ohio River. Excess water in the system will be treated, as required by applicable regulations. The purpose of the effluent transmission system is to convey sludge wastes, flyash wastes and bottom ash wastes from the facilities where they are generated to neutralization and disposal basins. As such, the ash sluice and waste transmission system is functionally related and subordinate to the air pollution and water pollution control devices consisting of the sulphur dioxide removal systems and the electrostatic precipitators as well as the ash storage pond, the emergency flyash and sludge storage pond and the solid waste processing and disposal facilities.

CONTAMINATED LIQUIDS TRANSMISSION AND DISPOSAL SYSTEM

A complete system of underground piping will be constructed and installed for the purpose of capturing all contaminated liquids created as a result of operations of the Trimble County Generating Plant, including contaminations created by oil spillages, metal cleaning, chemical wastes, chemical spills and other liquid pollutants. The liquid waste transmission and disposal system will convey the liquid wastes to one of the sedimentation and ash storage ponds which will be equipped with monitoring devices and skimmers to remove oil. The principal components of the contaminated liquids effluent drain system includes piping, basins, motors, controls and other functionally related and subordinate facilities.

OIL ELIMINATION SYSTEMS

Units 1 and 2 of the Trimble County Generating station will include concrete or other appropriate subterranean pits or appropriate systems which will collect waste oils and grease from the transformer areas, fuel oil storage areas and generating units. Skimmers will remove oil from the top of the liquid receptacles in order that waters may be transferred to holding basins and ultimately returned to the Ohio River in uncontaminated condition. Waste polluted oils will be disposed of by other pollution abatement facilities.

SANITARY FACILITIES

Operation of Units 1 and 2 of the Trimble County Generating Station will require considerable personnel, and appropriate sanitary facilities will be provided to comply with appropriate water pollution laws and regulations. Such facilities shall include sanitary receptacles, pumps, motors, piping and sanitary wastewater treatment facilities.

* * *

PART II

ADDITIONAL POLLUTION CONTROL FACILITIES

The pollution control facilities constituting the Project as described in Part I of this **Exhibit A** represent a portion of all the pollution control facilities intended to be acquired, constructed and installed at the Trimble County Generating Station of Louisville Gas and Electric Company in Trimble County, Kentucky, which complete pollution control facilities are described in that certain Memorandum of Agreement dated as of February 29, 1980, by and between the County of Trimble, Kentucky, and Louisville Gas and Electric Company, as follows:

**DESCRIPTION OF POLLUTION CONTROL
FACILITIES CONTAINED IN
MEMORANDUM OF AGREEMENT
BY AND BETWEEN
THE COUNTY OF TRIMBLE, KENTUCKY
AND
LOUISVILLE GAS AND ELECTRIC COMPANY**

**TRIMBLE COUNTY GENERATING STATION,
UNITS 1, 2, 3 and 4**

COOLING TOWERS

Natural draft cooling towers with closed-loop cooling water systems will be provided for Trimble County Generating Station, Units 1, 2, 3 and 4. The purpose of the cooling towers is to transfer to the atmosphere the heat absorbed by water circulated through the condensers of the generating units, which condense low pressure steam discharged from the steam driven turbines. The closed-loop system with cooling tower is designed to minimize the release of heated waters

(thermal pollution) to the Ohio River and is required in order to conform to applicable water pollution control regulations. The described water pollution control abatement facilities consist of natural draft cooling towers, pumps, circulating water systems, motors, blow-down system, structural supports and functionally related and subordinate equipment and facilities.

PARTICULATE REMOVAL

Particulate removal systems and functionally related facilities, which comply with the appropriate laws and regulations and which, at the time of purchase represent the state of the art, will be installed at Units 1, 2, 3 and 4 of the Trimble County Generating Station in order to reduce and remove from flue gases emitted from boiler, flyash and bottom ash generated by the combustion process of the coal-fired steam boilers. These facilities may consist of electrostatic precipitators, baghouses, and/or other devices.

FLUE GAS DUCT SYSTEMS

Ductwork incident to Unit 1, 2, 3 and 4 of the Trimble County Generating Station designed for the purpose of connecting the coal-fired steam boiler to the flyash particulate removal system, including ductwork utilized to transport cleansed flue gases to a chimney or a sulphur dioxide removal system following flyash removal and functionally related and subordinate facilities, will constitute the Flue Gas Duct System.

SULPHUR DIOXIDE REMOVAL SYSTEMS

As and if required by appropriate laws and regulations, complete sulphur dioxide removal systems will be provided for Units 1, 2, 3 and 4 of the Trimble County Generating Station. Following flyash removal, flue gases will be transmitted from the flyash removal systems to the sulphur dioxide removal systems where they will be reacted with reactive agent solutions such as lime, limestone, sodium hydroxide or such other reactant as represents the technology available in the circumstances chosen by the Company. The sulphur dioxide removal systems will be designed to remove a substantial portion of airborne sulphur dioxide, together with a portion of particulate loadings remaining following particulate removal, before emission of cleansed gases into the atmosphere. The sulphur dioxide removal systems are composed of the scrubbers themselves, associated ductwork (including ductwork connecting the scrubbers to a chimney), structural supports and piping, technical elements, reactive tanks, recycling and thickening tanks and reactant reception and disposal facilities. Dependent upon technology, sulphur dioxide removal systems may employ one or more stack gas scrubbing systems (wet or dry) installed in or upon high flue gas diffusers (chimneys) or such other facilities as shall represent the technology for the removal of airborne sulphur dioxide chosen by the Company.

SLUDGE PROCESSING

Dependent upon the sulphur dioxide removal system technology employed on Units 1, 2, 3 and 4 of the Trimble County Generating Station there may be substantial creation of sludge wastes. These wastes must be processed by a sludge processing facility into a suitable material for landfill disposal. The sludge processing facility will include a dry flyash collection system which will, by

pneumatic means, transport flyash in a dry state from the particulate removal systems to various holding silos and processing facilities incident to the sludge processing. The sludge wastes from the sulphur dioxide removal systems will be conveyed by pumping from thickener tanks to holding silos incident to the sludge processing. Thereafter, following dewatering, the sludge wastes will be mixed with the flyash waste and a lime catalyst, forming an acceptable solid waste landfill material. The sludge processing facility is expected to be composed of vacuum filters, waste holding silos, compressors, blowers, mixers, conveyors, structural elements, land, hardening pad, pumps, electrical components, piping, control systems and functionally related and subordinate facilities and equipment.

SLUDGE PROCESSING FACILITY LANDFILL

A disposal site for the solid waste landfill material developed by the scrubber sludge processing facility will be developed on property adjacent to the sludge processing facility. The disposal site is composed of land, a rain water runoff collection basin, and diversion system, water monitoring system, water treatment facility, piping, pumps, electrical components, structural elements, control systems, roads, loading, hauling, spreading and compaction equipment and functionally related and subordinate facilities and equipment.

EMERGENCY SLUDGE AND FLYASH STORAGE POND

Provisions will be made for the receipt and collection of scrubber sludge and flyash in a storage pond on an emergency basis. This material will be reclaimed on an intermittent basis for processing by the sludge processing facility. The principal components of the emergency storage pond facility will include land, transmission facilities to and from the pond, reclaiming equipment and functionally related and subordinate equipment.

HIGH FLUE GAS DIFFUSERS

High flue gas diffusers (chimneys) will be constructed with regard to Units 1, 2, 3 and 4 of the Trimble County Generating Station and such diffusers will be significantly higher than would be required from the standpoint of the interaction of airborne effluents with adjacent structures. Those portions of the chimney which are significantly higher than normally required will be provided to furnish an elevated release of flue gases so as to achieve diffusion and consequent low ground level concentrations of gaseous air effluents.

ASH SLUICE AND AIR TRANSPORT SYSTEMS

Dependent upon final design of Units 1, 2, 3 and 4 of the Trimble County Generating Station, flyash captured by the particulate removal system and bottom ash captured by the boiler ash hoppers will be transported to ash ponds, ash silos and/or dewatering bins. Water motivated sluice systems and/or air motivated ash transport systems will be used to transport the ash between the collection, storage and disposal locations. Water used in the ash sluice systems will be recycled from the disposal ponds to eliminate discharge to the river. Excess water in the system will be treated, as required for other plant uses and as required by regulations. The principal components of the water motivated systems will include the ash pond, land, piping, pumps, motors, valves, water treatment and other

related equipment. The principal components of air motivated systems will include piping, ductwork, blowers, compressors, motors, valves and other related equipment.

FUGITIVE DUST ELIMINATION EQUIPMENT

Dust elimination equipment consisting of strategically located covers and induced draft fans, together with ducting, dust collecting equipment and a wet dust suppression system will be provided at Units 1, 2, 3 and 4 of the Trimble County Generating Station to collect and suppress dust resulting from the coal handling system and scrubber reactant preparation and handling systems thereby prevent its being discharged into the atmosphere.

OIL ELIMINATION SYSTEM

Units 1, 2, 3 and 4 of the Trimble County Generating Station will include concrete or other appropriate subterranean pits or appropriate systems which will collect waste oils and greases from the transformer areas, fuel oil storage areas and generating units. Skimmers will remove oil from the top of the liquid receptacles in order that waters may be returned to the Ohio River in uncontaminated condition. Waste polluted oils will be disposed of by other pollution abatement facilities.

EFFLUENT DRAIN SYSTEMS

The effluent drainage system consist of a sedimentation basin, equipped with monitoring and skimmers to remove oil and an extensive plant area runoff system which drains into the sedimentation basin and a coal pile and scrubber reactant area runoff basin equipped with monitors and treatment facilities which after treatment will drain into the sedimentation basin. The principal components of such effluent systems include the land, basins, pipes, pumps, motors and controls.

Metal cleaning chemical wastes will be collected and discharged to the ash pond. The components of this system include sumps, pumps, piping and controls.

SANITARY FACILITIES

Operation of Units 1, 2, 3 and 4 of the Trimble County Generating Station will require considerable personnel and appropriate sanitary facilities will be provided to comply with appropriate water pollution laws and regulations. Such facilities shall include sanitary receptacles, pumps, motors, piping and sanitary wastewater treatment facilities.

REACTANT PREPARATION AND SUPPLY FACILITIES

The reactant preparation and supply facilities will supply reactant to the sulphur dioxide removal systems on Units 1, 2, 3 and 4 of Trimble County Generating Station. They will include the facilities to receive, unload, process and store the reactant material used to remove sulphur dioxide in the sulphur dioxide removal systems. The reactant preparation and supply facilities will consist of land, dock, mooring cells, unloading equipment, conveying equipment, grinding equipment, mixing equipment, thickening tanks, pumps, motors, piping, valves, controls, structures and other functionally related and subordinate equipment.

LOUISVILLE GAS AND ELECTRIC COMPANY

TO

THE BANK OF NEW YORK MELLON,

Trustee

**Supplemental Indenture No. 6
dated as of May 15, 2017**

**Supplemental to the Indenture
dated as of October 1, 2010**

**Establishing
First Mortgage Bonds, Collateral Series 2017TCA**

SUPPLEMENTAL INDENTURE NO. 6

SUPPLEMENTAL INDENTURE No. 6, dated as of the fifteenth day of May, 2017, made and entered into by and between LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having its principal corporate offices at 220 West Main Street, Louisville, Kentucky 40202 (hereinafter sometimes called the “Company”), and THE BANK OF NEW YORK MELLON, a New York banking corporation, having its corporate trust office at 500 Ross Street, 12th Floor, Pittsburgh, Pennsylvania 15262 and having its principal place of business at 225 Liberty Street, New York, New York 10281 (hereinafter sometimes called the “Trustee”), as Trustee under the Indenture, dated as of October 1, 2010 (hereinafter called the “Original Indenture”), between the Company and said Trustee, as heretofore supplemented, this Supplemental Indenture No. 6 being supplemental thereto. The Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 6 are hereinafter sometimes, collectively, called the “Indenture.”

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on such Securities.

The Company has heretofore executed and delivered supplemental indentures for the purpose of creating series of Securities as set forth in Exhibit A hereto.

The Original Indenture and Supplemental Indentures Nos. 1 through 4, and financing statements in respect thereof, have been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Supplemental Indenture No. 5.

Supplemental Indenture No. 5 has been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Exhibit B hereto.

Pursuant to Article Three of the Original Indenture, the Company wishes to establish a series of Securities, such series of Securities to be hereinafter sometimes called “Securities of Series No. 8”.

As contemplated in Section 301 of the Original Indenture, the Company further wishes to establish the designation and certain terms of the Securities of Series No. 8. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 6 to establish the designation and certain terms of such series of Securities and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 6 a valid agreement of the Company, and to make the Securities of Series No. 8 valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 6 WITNESSETH, that, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is mutually covenanted and agreed, for the benefit of the Holders of the Securities of Series No. 8, as follows:

ARTICLE ONE

SECURITIES OF SERIES NO. 8

SECTION 101. Creation of Series No. 8.

There is hereby created a series of Securities designated “First Mortgage Bonds, Collateral Series 2017TCA”, and the Securities of such series shall:

- (a) be issued in the aggregate principal amount of \$60,000,000 and shall be limited to such aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture);
- (b) be dated June 1, 2017;
- (c) have a Stated Maturity of June 1, 2033, subject to prior redemption by the Company;
- (d) have such additional terms as are established in an Officer’s Certificate as contemplated in Section 301 of the Original Indenture; and
- (e) be in substantially the form or forms established therefor in an Officer’s Certificate, as contemplated by Section 201 of the Original Indenture.

ARTICLE TWO

MISCELLANEOUS PROVISIONS

SECTION 201. Single Instrument.

This Supplemental Indenture No. 6 is an amendment and supplement to the Original Indenture as heretofore amended and supplemented. As amended and supplemented by this Supplemental Indenture No. 6, the Original Indenture, as heretofore supplemented, is in all respects ratified, approved and confirmed, and the Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 6 shall together constitute the Indenture.

SECTION 202. Trustee.

The Trustee accepts the amendment of the Original Indenture effected by this Supplemental Indenture No. 6 upon the terms and conditions set forth in the Original Indenture, as heretofore amended and supplemented, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Original Indenture, as heretofore amended and supplemented, and as hereby amended. The Recitals of the Company contained in this Supplemental Indenture No. 6 shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness and makes no representations as to the validity or sufficiency of this Supplemental Indenture No. 6.

SECTION 203. Effect of Headings.

The Article and Section headings in this Supplemental Indenture No. 6 are for convenience only and shall not affect the construction hereof.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

THE BANK OF NEW YORK MELLON, as Trustee

By: _____ /s/ Francine Kincaid

Name: Francine Kincaid

Title: Vice President

[Signature Page to Supplemental Indenture No. 6 – Louisville Gas and Electric Company]

COMMONWEALTH OF KENTUCKY)
) ss.:
COUNTY OF JEFFERSON)

On this 18th day of May, 2017, before me, a notary public, the undersigned, personally appeared Daniel K. Arbough, who acknowledged himself to be the Treasurer of LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation of the Commonwealth of Kentucky and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Betty L. Brinly

Notary Public

[Seal]

[Signature Page to Supplemental Indenture No. 6 – Louisville Gas and Electric Company]

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 18th day of May, 2017, before me, a notary public, the undersigned, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of THE BANK OF NEW YORK MELLON, a corporation and that she, as Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

By: /s/ Christopher J. Traina

Christopher J. Traina
Notary Public – State of New York
No. 01TR6297825
Qualified in Queens County
Certified in New York County
My Commission Expires
March 03, 2018
[Seal]

The Bank of New York Mellon hereby certifies that its precise name and address as Trustee hereunder are:

The Bank of New York Mellon
500 Ross Street, 12th Floor
Pittsburgh, Pennsylvania 15262
Attn: Corporate Trust Administration

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid

Name: Francine Kincaid
Title: Vice President

[Signature Page to Supplemental Indenture No. 6 – Louisville Gas and Electric Company]

CERTIFICATE OF PREPARER

The foregoing instrument was prepared by:

James J. Dimas, Senior Corporate Attorney
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

/s/ James J. Dimas

James J. Dimas

[Signature Page to Supplemental Indenture No. 6 – Louisville Gas and Electric Utilities Company]

LOUISVILLE GAS AND ELECTRIC COMPANY

**Bonds Issued and Outstanding
under the Indenture**

Supplemental Indenture No.	Dated as of	Series No.	Series Designation	Date of Securities	Principal Amount Issued	Principal Amount Outstanding ¹
1	October 15, 2010	1	Collateral Series 2010	October 20, 2010	\$574,304,000	\$424,304,000
2	November 1, 2010	2	1.625% Series due 2015	November 16, 2010	\$250,000,000	None
		3	5.125% Series due 2040	November 16, 2010	\$285,000,000	\$285,000,000
3	November 1, 2013	4	4.65% Series due 2043	November 14, 2013	\$250,000,000	\$250,000,000
4	September 1, 2015	5	3.300% Series due 2025	September 28, 2015	\$300,000,000	\$300,000,000
		6	4.375% Series due 2045	September 28, 2015	\$250,000,000	\$250,000,000
5	September 1, 2016	7	Collateral Series 2016TCA	September 15, 2016	\$125,000,000	\$125,000,000

¹ As of May 15, 2017.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Filing and Recording
of
Supplemental Indenture No. 5, dated as of September 1, 2016,
to
Indenture, dated as of October 1, 2010**

COUNTY	MORTGAGE BOOK	PAGE NUMBER
Breckenridge	431	407
Bullitt	M1668	631-643
Clark	M835	692
Green	M304	231-243
Hardin	2174	204-216
Hart	M374	692
Henry	M342	66-78
Jefferson	14719	206-219
Larue	352	309
Meade	M810	20-32
Metcalfe	171	222
Muhlenberg	M683	453
Nelson	M1109	303-315
Oldham	M2224	819-831
Shelby	M1020	7
Trimble	M209	815

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LOUISVILLE GAS AND ELECTRIC COMPANY**OFFICER'S CERTIFICATE****(under Sections 201 and 301 of the Indenture, dated as of October 1, 2010)****Establishing the Form and Certain Terms of the
First Mortgage Bonds, Collateral Series 2017TCA**

The undersigned Daniel K. Arbough, the Treasurer of LOUISVILLE GAS AND ELECTRIC COMPANY (the "Company"), in accordance with Sections 201 and 301 of the Indenture, dated as of October 1, 2010 (the "Original Indenture"), as amended and supplemented by various instruments including Supplemental Indenture No. 6, dated as of May 15, 2017 (as so amended and supplemented, the "Indenture"), of the Company to The Bank of New York Mellon, trustee (the "Trustee"), does hereby establish, for the Securities of Series No. 8, established in Supplemental Indenture No. 6, the terms and characteristics set forth in this Officer's Certificate (capitalized terms used herein and not defined herein having the meanings specified in the Original Indenture).

Set forth below are the terms and characteristics of the aforesaid series of Securities referred to in clauses (a) through (u) in the third paragraph of Section 301 of the Indenture (the lettered clauses set forth herein corresponding to such clauses in said Section 301):

- (a) the title of the Securities of such series shall be "First Mortgage Bonds, Collateral Series 2017TCA" (the "Bonds");
- (b) the aggregate principal amount of Bonds which may be authenticated and delivered under the Indenture shall be limited to \$60,000,000 as and to the extent set forth in Supplemental Indenture No. 6; the Stated Maturity of the Bonds will be June 1, 2033;
- (c)
 - (1) the Bonds are to be issued and delivered to, and registered in the name of U.S. Bank National Association, as trustee (the "Revenue Bond Trustee") under an indenture of trust dated as of June 1, 2017 (the "Revenue Bond Indenture"), which relates to Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) (the "Revenue Bonds") issued by the County of Trimble, Kentucky (the "Governmental Issuer");
 - (2) the Bonds will be issued and delivered to, and registered in the name of, the Revenue Bond Trustee under the Revenue Bond Indenture to convey the benefit of the lien of the Indenture to such Revenue Bond Trustee for the benefit of the holders of the Revenue Bonds issued and outstanding thereunder. All payments of principal of and interest on the Bonds shall be payable to the Revenue Bond Trustee as the registered holder of the Bonds;
- (d) the principal of the Bonds shall be due and payable on the applicable Stated Maturity date specified in clause (b); and the Company shall not have the right to extend the Maturity of the Bonds as contemplated in Section 301(d) of the Original Indenture;
- (e) the Bonds shall bear interest at the same rate borne from time to time by the Revenue Bonds; provided, however, that if such Revenue Bonds shall bear interest at more than one rate, the

rate of interest borne by the Bonds shall be such composite rate as shall produce the same dollar amount of accrued interest on such Bonds as is produced on such Revenue Bonds; and provided, further, that interest on the Bonds shall not commence to accrue unless and until:

- (1) the Bonds are to be mandatorily redeemed as contemplated in clause (g), or
- (2) all Securities Outstanding under the Indenture shall have become immediately due and payable pursuant to Section 1002 of the Original Indenture,

and, in either such event, interest shall commence to accrue from the last date to which interest on the Revenue Bonds shall have been paid in full (the "Initial Interest Accrual Date"), as specified by the Revenue Bond Trustee in a written notice to the Trustee; interest on the Bonds, having commenced to accrue as aforesaid, shall be and remain immediately due and payable until paid in full (unless the mandatory redemption or acceleration giving rise to the accrual of interest as aforesaid shall have been rescinded or annulled, in which event such accrual of interest shall automatically be rescinded and annulled); and in no event shall the amount of interest accrued on the Bonds exceed the amount of interest accrued on the Revenue Bonds; and the Company shall not have any right to extend any interest payment periods for the Bonds as contemplated in Sections 301(e) and 312 of the Original Indenture;

- (f) the Corporate Trust Office of the Trustee in New York, New York shall be the office or agency of the Company at which the principal of and any premium and interest on the Bonds at Maturity shall be payable, at which registration of transfers and exchanges of the Bonds may be effected and at which notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and the Trustee will initially be the Security Registrar and the Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such office or agency and such agent;
- (g) If the Revenue Bonds shall have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture (which Event of Default shall have been caused by an event of default under the loan agreement dated as of June 1, 2017 between the Company and the Governmental Issuer relating to the Revenue Bonds (the "Agreement") that has resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto) and if all Securities Outstanding under the Indenture shall not have become immediately due and payable following an Event of Default under the Indenture, the Bonds shall be redeemed by the Company, in whole, at a redemption price equal to 100% of the principal amount thereof plus accrued interest from the Initial Interest Accrual Date to the date of redemption upon receipt by the Company and the Trustee of a written demand for such redemption (a "Redemption Demand") executed and delivered by the Revenue Bond Trustee and stating (1) that such Revenue Bonds have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture, (2) that such Event of Default was caused by an event of default under the Agreement that resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto, (3) that the redemption of the Bonds is thereby demanded by such Revenue Bond Trustee and (4) the last date to which interest on such Revenue Bonds has

been paid in full; provided, however, that any rescission or annulment of the acceleration of maturity of the Revenue Bonds shall constitute the rescission and annulment of the Company's obligation to redeem the Bonds. No notice of any such redemption shall be required to be given;

- (h) inapplicable;
- (i) the Bonds shall be issuable in denominations of \$1,000 and any integral multiple thereof;
- (j) inapplicable;
- (k) inapplicable;
- (l) inapplicable;
- (m) inapplicable;
- (n) inapplicable;
- (o) inapplicable;
- (p) inapplicable;
- (q) the Bonds shall be non-transferable except to a successor Revenue Bond Trustee under the Revenue Bond Indenture; no service or other charge shall be made for any registration of transfer or exchange of the Bonds;
- (r) inapplicable;
- (s) inapplicable;
- (t) inapplicable; and
- (u)
 - (1) anything herein to the contrary notwithstanding, the obligation of the Company to make any payment of the principal of or interest on the Bonds shall be deemed to be satisfied and discharged to the extent of the corresponding payment (A) made by the Company to the Revenue Bond Trustee pursuant to the Agreement and/or (B) made with moneys on deposit in any fund or account maintained under such Revenue Bond Indenture for the payment of the principal of or interest on the Revenue Bonds;
 - (2) the Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Bonds as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Revenue Bond Trustee, as Holder of such Bonds, signed by an authorized officer thereof, stating that the principal of and/or interest on such Bonds has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment;

(3) The Trustee may conclusively presume that all statements made in a Redemption Demand are true and correct and, unless advised to the contrary by the Revenue Bond Trustee in a written notice to the Trustee, that no redemption demanded in a Redemption Demand has been rescinded, and shall be entitled to receive, and to conclusively rely on, a written notice from the Revenue Bond Trustee as to the amount of interest accruing on the Bonds from time to time; and

(4) except as otherwise determined by the proper officers of the Company and established in one or more Officer's Certificates supplemental to this Officer's Certificate, the Bonds shall be substantially in the form of the Bond attached hereto as Exhibit A, which form is hereby authorized and approved, and shall have such further terms as are set forth in such form.

IN WITNESS WHEREOF, I have executed this Officer's Certificate this 1st day of June, 2017.

/s/ Daniel K. Arbough

Name: Daniel K. Arbough
Title: Treasurer

ATTEST:

/s/ Gerald A. Reynolds

Name: Gerald A. Reynolds
Title: General Counsel, Chief Compliance
Officer and Corporate Secretary

[Signature Page to Officer's Certificate Under Sections 201 and 301 of the Indenture]

THIS SECURITY IS NON-TRANSFERABLE EXCEPT TO A SUCCESSOR REVENUE BOND TRUSTEE UNDER THE REVENUE BOND INDENTURE SPECIFIED BELOW.

[FORM OF BOND]

No.
Principal Amount: \$
Stated Maturity:
Governmental Issuer: County of Trimble, Kentucky
Revenue Bonds: Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project)
Revenue Bond Indenture: Indenture of Trust, dated as of June 1, 2017, between the Governmental Issuer and the Revenue Bond Trustee
Revenue Bond Trustee: , as trustee under the Revenue Bond Indenture

**LOUISVILLE GAS AND ELECTRIC COMPANY
FIRST MORTGAGE BOND, COLLATERAL SERIES 2017TCA**

LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein referred to as the "Company," which term includes any Successor Corporation under the Indenture referred to below), for value received, hereby promises to pay to the Revenue Bond Trustee specified above, the principal sum of

(\$) Dollars

on the Stated Maturity specified above, and to pay interest from the Initial Interest Accrual Date (as defined below) on said principal sum at the rate from time to time borne by the Revenue Bonds specified above; provided, however, that if such Revenue Bonds shall bear interest at more than one rate, the rate of interest borne by this Security shall be such composite rate as shall produce the same dollar amount of accrued interest on this Security as is produced on such Revenue Bonds. No interest will accrue on the Securities with respect to the day on which the Securities mature.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication:

THE BANK OF NEW YORK MELLON, as Trustee

By: _____
Authorized Signatory

Interest on this Security will be computed on the same basis as interest on the Revenue Bonds specified above as provided in the Revenue Bond Indenture specified above.

Interest on the Securities of this series shall not commence to accrue unless and until:

- (1) the Securities of this series are to be mandatorily redeemed as contemplated below, or
- (2) all Securities Outstanding under the Indenture referred to below shall have become immediately due and payable pursuant to Section 1002 of the Original Indenture (as defined below),

and, in either such event, interest shall commence to accrue from the last date to which interest on the Revenue Bonds specified above shall have been paid in full (the "Initial Interest Accrual Date"), as specified by the Revenue Bond Trustee specified above in a written notice to the Trustee.

Payment of the principal of and premium, if any, and interest at Maturity on this Security shall be made upon presentation of this Security at the corporate trust office of The Bank of New York Mellon in New York, New York, or at such other office or agency as may be designated for such purpose by the Company from time to time, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, and payment of interest, if any, on this Security (other than interest payable at Maturity) shall be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

This Security is one of a duly authorized issue of Securities of the Company (herein called the "Securities"), issued and issuable in one or more series under an Indenture, dated as of October 1, 2010 (herein called the "Original Indenture" and, together with any amendments or supplements thereto and the Officer's Certificate establishing the terms of the Securities of this series, the "Indenture," which term shall have the meaning assigned to it in the Original Indenture), between the Company and The Bank of New York Mellon, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including Supplemental Indenture No. 6 thereto, for a statement of the property mortgaged, pledged and held in trust, the nature and extent of the security, the conditions upon which the lien of the Indenture may be released and the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. The acceptance of this Security by the Holder hereof shall be deemed to constitute the consent and agreement by such Holder to all of the terms and provisions of the Indenture. This Security is one of the series designated on the face hereof.

If the Revenue Bonds specified above shall have become immediately due and payable due to the occurrence and continuance of an Event of Default under the Revenue Bond Indenture specified above (which Event of Default shall have been caused by an event of default under the Agreement (as defined in the Revenue Bond Indenture specified above) between the Company and the Governmental Issuer specified above (the "Agreement") that has resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto) and if all Securities Outstanding under the Indenture shall not have become immediately due and payable following an Event of Default under the Indenture, the Bonds of this series shall be redeemed by the Company, in whole, at a redemption price equal to 100% of the principal amount thereof plus accrued interest from the Initial Interest Accrual Date to the date of redemption upon receipt by the Company and the Trustee of a written demand for such redemption (a "Redemption Demand") executed and delivered by the Revenue

Bond Trustee specified above and stating (a) that such Revenue Bonds have become immediately due and payable due to the occurrence and continuance of an Event of Default under such Revenue Bond Indenture, (b) that such Event of Default was caused by an event of default under the loan agreement between the Company and such Governmental Issuer that resulted in a default in payment of the principal of or premium, if any, or interest on such Revenue Bonds, or a default in a payment of purchase price with respect thereto, (c) that the redemption of the Bonds of this series is thereby demanded by such Revenue Bond Trustee and (d) the last date to which interest on such Revenue Bonds has been paid in full.

If an Event of Default with respect to the Securities of this series shall occur and be continuing, the principal of this Security may be declared due and payable in the manner and with the effect provided in the Indenture.

Anything herein to the contrary notwithstanding, the obligation of the Company to make any payment of the principal of or interest on the Bonds of this series shall be deemed to be satisfied and discharged to the extent of the corresponding payment (a) made by the Company to the Revenue Bond Trustee specified above pursuant to the Agreement and/or (b) made with moneys on deposit in any fund or account maintained under such Revenue Bond Indenture for the payment of the principal of or interest on the Revenue Bonds.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Securities of this series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Revenue Bond Trustee specified above, signed by an authorized officer thereof, stating that the principal of and/or interest on the Securities of this series has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment.

The Trustee may conclusively presume that all statements made in a Redemption Demand are true and correct and, unless advised to the contrary by the Revenue Bond Trustee specified above in a written notice to the Trustee, that no redemption demanded in a Redemption Demand has been rescinded, and shall be entitled to receive, and to conclusively rely on, a written notice from such Revenue Bond Trustee as to the amount of interest accruing on the Securities of this series from time to time.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of all series affected at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (a) such Holder shall have previously given the Trustee written notice of a continuing Event of Default; (b) the Holders of 25% in aggregate principal amount of the

Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity; (c) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Securities a direction inconsistent with such request; and (d) the Trustee shall have failed to institute any such proceeding for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this series are issuable only in registered form without coupons, and in denominations of \$1,000 and integral multiples thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder hereof or its attorney duly authorized in writing, and thereupon one or more new Securities of this series, of authorized denominations and of like tenor and aggregate principal amount, shall be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of the same series, of any authorized denominations, as requested by the Holder surrendering the same, and of like tenor upon surrender of the Security or Securities to be exchanged at the office or agency of the Company for such purpose.

No service or other charge shall be made for any such registration of transfer or exchange.

Anything herein to the contrary notwithstanding, this Security shall not be transferable except to a successor Revenue Bond Trustee under the Revenue Bond Indenture specified above.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes (subject to Sections 305 and 307 of the Indenture), whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute), except to the extent that the Trust Indenture Act shall be applicable and except to the extent that the law of any other jurisdiction shall mandatorily govern.

As used herein, "Business Day," means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies in The City of New York, New York, or other city in which a paying agent for this Security is located, are generally authorized or required by law, regulation or executive order to remain closed. All other terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

As provided in the Indenture, no recourse shall be had for the payment of the principal of or premium, if any, or interest on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under the Indenture, against, and no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, member, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture and all the Securities are solely corporate obligations and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of the Indenture and the issuance of the Securities.

Unless the certificate of authentication hereon has been executed by the Trustee referred to herein by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Date of Security:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

Name:

Title:

ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

[please insert social security or other identifying number of assignee]

[please print or typewrite name and address of assignee]

the within Security of LOUISVILLE GAS AND ELECTRIC COMPANY and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said Security on the books of the within-mentioned Company, with full power of substitution in the premises.

Dated: ____

[signature of registered holder]

Notice: The signature to this assignment must correspond with the name as written upon the face of the Security in every particular without alteration or enlargement or any change whatsoever.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: June 26, 2017 (period: June 22, 2017)

Report of unscheduled material events or corporate changes.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 22, 2017

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Indicate by a check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (§230.405) or Rule 12b-2 under the Exchange Act (§240.12b-2).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
 - LG&E and KU Energy LLC
 - Louisville Gas and Electric Company
 - Kentucky Utilities Company
-

Section 8 - Other Events

Item 8.01 Other Events

On June 22, 2017, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies") issued a press release announcing the Kentucky Public Service Commission ("KPSC") orders approving, with certain modifications, the unanimous settlement agreements in the Companies' rate increase proceedings. The settlement agreements were previously announced on April 19, 2017. The rate changes become effective on July 1, 2017.

The KPSC order provides for increases of \$56 million and \$51 million, respectively, in the annual revenue requirement associated with LG&E and KU base electric rates and \$7 million in the annual revenue requirement associated with LG&E base gas rates. The KPSC established an authorized return on equity for base rates and the gas line tracker mechanism of 9.70% for all three rate bases. The order represents increases of approximately 5%, 3% and 2%, respectively, in LG&E and KU base electric and LG&E gas annual revenue requirements.

Consistent with the proposed settlement, the order approved the Companies' requests for Certificates of Public Convenience and Necessity ("CPCN") for certain substation automation and approved the Companies' agreement to withdraw their request for a CPCN for full deployment of advanced meters and form a collaborative group to study such project. In addition, a CPCN was issued for the construction of a new gas pipeline in Bullitt County.

The KPSC's order represents reductions of approximately \$3 million, \$4 million and \$1 million, respectively, in LG&E and KU electric and LG&E gas annual revenue requirements from the terms proposed in the settlement (including a reduction of 0.05% in authorized return on equity). The KPSC order also modified the settlement to provide for the increase in the residential monthly basic electric service charge to occur in one step when new rates become effective, rather than occurring over two years.

The order is subject to standard rehearing or appeal rights of the parties, if exercised. The Companies are currently reviewing the KPSC order.

A copy of the Companies' press release is filed as Exhibit 99.1 hereto.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press release, dated June 22, 2017, of Louisville Gas and Electric Company and Kentucky Utilities Company

Statements in this report regarding future events and their timing, including the Companies' future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity or gas; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

KENTUCKY UTILITIES COMPANY

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

Dated: June 26, 2017

Press Release

LG&E and KU Energy LLC
220 West Main Street
Louisville, Kentucky 40202
www.lge-ku.com

Contact:

Media Line
T 502-627-4999
F 502-627-3629

June 22, 2017

KPSC rules in the LG&E, KU rate review

Ruling allows for investments in safe, reliable service

(LOUISVILLE, Ky.) — The Kentucky Public Service Commission issued its ruling today in the rate review for Louisville Gas and Electric Company and Kentucky Utilities Company, upholding the majority of the settlement reached by 18 interested parties to the case.

The ruling gives LG&E and KU the ability to invest in intelligent control equipment that will enhance reliability and enable faster restoration of service. It also will give LG&E the ability to improve natural gas safety and reliability by replacing aging natural gas service steel lines — that run from the street to customers' homes — with new plastic lines. It also approved a new natural gas line in Bullitt County, Kentucky, to provide additional reliability in that area.

The commission expanded a section of the settlement to allow all Kentucky schools — not just public schools — to participate in a \$1.5 million pilot program that provides lower rates to schools that participate in energy efficiency measures. It also disallowed cost recovery of certain employee retirement benefits.

During the settlement discussions, the utilities agreed to withdraw their current plans for full deployment of advanced meters that help customers better manage their energy use and allow the utilities the ability to know when customers' service is out. LG&E and KU will continue their voluntary advanced meter program and form an AMS collaborative of interested parties from the existing rate review to address issues raised by the parties with respect to LG&E and KU's proposal.

A KU residential customer using an average of 1,179 kilowatt hours per month will see an increase of \$3.85 per month. An LG&E residential electric customer using an average of 957 kWh per month will see a total monthly increase of \$6.42. A residential LG&E natural gas customer using an average of 55 Ccf per month will see a total monthly increase of \$1.28.

The monthly electric basic service charge for LG&E and KU, included in the increase above, will be \$12.25 and will not be staggered over two years, as agreed upon during the settlement. LG&E's monthly natural gas basic service charge will be \$16.35.

"While we are still reviewing the details of the order, the ruling gives us the ability to enhance our reliability and continue providing safe and reliable service to our customers while mostly meeting the needs of the parties to this case," said Kent Blake, LG&E and KU chief financial officer.

The new rates will go into effect July 1.

###

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve nearly 1.3 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 324,000 natural gas and 407,000 electric customers in Louisville and 16 surrounding counties. KU serves 549,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: August 03, 2017 (period: June 30, 2017)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2017
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	[X]	[]	[]	[]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]	[]
Kentucky Utilities Company	[]	[]	[X]	[]	[]

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <u> </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u> </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u> </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u> </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u> </u>	No <u>X</u>

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 685,855,683 shares outstanding at July 27, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 27, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 27, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 27, 2017.

This document is available free of charge at the Investors section of PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, a direct U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard.

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - At-the-Market stock offering program.

BSER - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - A non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - Earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

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OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions are based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

S&P - S&P Global Ratings, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

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SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2016 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of unrecorded commitments and liabilities, if any, of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 1,725	\$ 1,785	\$ 3,676	\$ 3,796
Operating Expenses				
Operation				
Fuel	183	183	374	380
Energy purchases	136	147	351	380
Other operation and maintenance	388	425	820	875
Depreciation	246	231	488	460
Taxes, other than income	70	74	145	153
Total Operating Expenses	1,023	1,060	2,178	2,248
Operating Income	702	725	1,498	1,548
Other Income (Expense) - net	(112)	174	(159)	235
Interest Expense	222	224	439	448
Income Before Income Taxes	368	675	900	1,335
Income Taxes	76	192	205	371
Net Income	\$ 292	\$ 483	\$ 695	\$ 964
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.43	\$ 0.71	\$ 1.02	\$ 1.42
Diluted	\$ 0.43	\$ 0.71	\$ 1.01	\$ 1.41
Dividends Declared Per Share of Common Stock	\$ 0.3950	\$ 0.38	\$ 0.79	\$ 0.76
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	683,841	677,145	682,370	676,293
Diluted	686,351	680,729	684,725	679,773

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**PPL Corporation and Subsidiaries**

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 292	\$ 483	\$ 695	\$ 964
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$0, \$0, (\$1), (\$2)	231	268	207	(196)
Qualifying derivatives, net of tax of \$5, \$22, \$7, \$7	(24)	(85)	(30)	(5)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$7, (\$1), \$7, (\$1)	(11)	2	(11)	2
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of (\$7), (\$21), (\$7), (\$2)	25	85	24	7
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	1	(1)	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of (\$9), (\$8), (\$18), (\$17)	31	32	63	63
Total other comprehensive income (loss)	254	302	255	(129)
Comprehensive income	\$ 546	\$ 785	\$ 950	\$ 835

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 695	\$ 964
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	488	460
Amortization	45	37
Defined benefit plans - expense (income)	(45)	(24)
Deferred income taxes and investment tax credits	201	320
Unrealized (gains) losses on derivatives, and other hedging activities	135	(192)
Stock-based compensation expense	22	18
Other	(5)	(11)
Change in current assets and current liabilities		
Accounts receivable	26	16
Accounts payable	(92)	(39)
Unbilled revenues	70	(2)
Fuel, materials and supplies	42	21
Prepayments	(66)	(66)
Counterparty collateral	8	76
Taxes payable	(27)	22
Accrued interest	(77)	(85)
Other current liabilities	(52)	(47)
Other	(14)	(21)
Other operating activities		
Defined benefit plans - funding	(552)	(224)
Other assets	(1)	2
Other liabilities	(11)	(55)
Net cash provided by operating activities	<u>790</u>	<u>1,170</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,373)	(1,346)
Expenditures for intangible assets	(15)	(14)
Other investing activities	6	13
Net cash used in investing activities	<u>(1,382)</u>	<u>(1,347)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	594	1,020
Retirement of long-term debt	(60)	(684)
Settlement of cross-currency swaps	—	46
Issuance of common stock	177	76
Payment of common stock dividends	(529)	(513)
Net increase (decrease) in short-term debt	554	(66)
Other financing activities	(25)	(31)
Net cash provided by (used in) financing activities	<u>711</u>	<u>(152)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>7</u>	<u>(15)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>126</u>	<u>(344)</u>
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	<u>\$ 467</u>	<u>\$ 492</u>
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 284	\$ 283
Accrued expenditures for intangible assets at June 30,	\$ 56	\$ 94

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 467	\$ 341
Accounts receivable (less reserve: 2017, \$53; 2016, \$54)		
Customer	628	666
Other	85	46
Unbilled revenues	416	480
Fuel, materials and supplies	316	356
Prepayments	131	63
Price risk management assets	69	63
Other current assets	54	52
Total Current Assets	2,166	2,067
Property, Plant and Equipment		
Regulated utility plant	36,173	34,674
Less: accumulated depreciation - regulated utility plant	6,446	6,013
Regulated utility plant, net	29,727	28,661
Non-regulated property, plant and equipment	424	413
Less: accumulated depreciation - non-regulated property, plant and equipment	147	134
Non-regulated property, plant and equipment, net	277	279
Construction work in progress	1,229	1,134
Property, Plant and Equipment, net	31,233	30,074
Other Noncurrent Assets		
Regulatory assets	1,906	1,918
Goodwill	3,139	3,060
Other intangibles	656	700
Pension benefit asset	467	9
Price risk management assets	245	336
Other noncurrent assets	152	151
Total Other Noncurrent Assets	6,565	6,174
Total Assets	\$ 39,964	\$ 38,315

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,497	\$ 923
Long-term debt due within one year	671	518
Accounts payable	752	820
Taxes	77	101
Interest	196	270
Dividends	271	259
Customer deposits	289	276
Regulatory liabilities	71	101
Other current liabilities	526	569
Total Current Liabilities	4,350	3,837
Long-term Debt	18,397	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,130	3,889
Investment tax credits	131	132
Accrued pension obligations	787	1,001
Asset retirement obligations	343	428
Regulatory liabilities	902	899
Other deferred credits and noncurrent liabilities	434	422
Total Deferred Credits and Other Noncurrent Liabilities	6,727	6,771
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,023	9,841
Earnings reinvested	3,983	3,829
Accumulated other comprehensive loss	(3,523)	(3,778)
Total Equity	10,490	9,899
Total Liabilities and Equity	\$ 39,964	\$ 38,315

(a) 1,560,000 shares authorized; 685,473 and 679,731 shares issued and outstanding at June 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20)			(20)
Net income				695		695
Dividends and dividend equivalents				(541)		(541)
Other comprehensive income (loss)					255	255
June 30, 2017	<u>685,473</u>	<u>\$ 7</u>	<u>\$ 10,023</u>	<u>\$ 3,983</u>	<u>\$ (3,523)</u>	<u>\$ 10,490</u>
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	3,692		109			109
Stock-based compensation			(30)			(30)
Net income				964		964
Dividends and dividend equivalents				(515)		(515)
Other comprehensive income (loss)					(129)	(129)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
June 30, 2016	<u>677,549</u>	<u>\$ 7</u>	<u>\$ 9,766</u>	<u>\$ 3,409</u>	<u>\$ (2,857)</u>	<u>\$ 10,325</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareholders' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 500	\$ 495	\$ 1,073	\$ 1,080
Operating Expenses				
Operation				
Energy purchases	107	118	253	285
Other operation and maintenance	138	137	302	287
Depreciation	76	62	151	121
Taxes, other than income	23	24	52	53
Total Operating Expenses	<u>344</u>	<u>341</u>	<u>758</u>	<u>746</u>
Operating Income	156	154	315	334
Other Income (Expense) - net	3	5	4	8
Interest Income from Affiliate	1	—	1	—
Interest Expense	<u>36</u>	<u>32</u>	<u>69</u>	<u>65</u>
Income Before Income Taxes	124	127	251	277
Income Taxes	<u>47</u>	<u>48</u>	<u>95</u>	<u>104</u>
Net Income (a)	<u>\$ 77</u>	<u>\$ 79</u>	<u>\$ 156</u>	<u>\$ 173</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 156	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	151	121
Amortization	15	15
Defined benefit plans - expense	7	7
Deferred income taxes and investment tax credits	84	107
Other	(4)	(10)
Change in current assets and current liabilities		
Accounts receivable	13	(6)
Accounts payable	(59)	(26)
Unbilled revenues	17	3
Prepayments	(52)	3
Regulatory assets and liabilities	(12)	(40)
Taxes payable	(4)	(16)
Other	(6)	(6)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	(4)	11
Other liabilities	1	(8)
Net cash provided by operating activities	<u>279</u>	<u>328</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(550)	(424)
Expenditures for intangible assets	(5)	(2)
Net increase in notes receivable from affiliate	(270)	—
Other investing activities	1	(1)
Net cash used in investing activities	<u>(824)</u>	<u>(427)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	470	224
Retirement of long-term debt	—	(224)
Contributions from parent	575	200
Payment of common stock dividends to parent	(154)	(117)
Net increase (decrease) in short-term debt	(295)	6
Other financing activities	(5)	(2)
Net cash provided by financing activities	<u>591</u>	<u>87</u>
Net Increase (Decrease) in Cash and Cash Equivalents	46	(12)
Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	<u>\$ 59</u>	<u>\$ 35</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 157	\$ 130

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 59	\$ 13
Accounts receivable (less reserve: 2017, \$26; 2016, \$28)		
Customer	267	272
Other	12	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	270	—
Unbilled revenues	97	114
Materials and supplies	29	32
Prepayments	61	9
Regulatory assets	14	19
Other current assets	6	8
Total Current Assets	816	488
Property, Plant and Equipment		
Regulated utility plant	10,235	9,654
Less: accumulated depreciation - regulated utility plant	2,814	2,714
Regulated utility plant, net	7,421	6,940
Construction work in progress	593	641
Property, Plant and Equipment, net	8,014	7,581
Other Noncurrent Assets		
Regulatory assets	1,076	1,094
Intangibles	254	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,345	1,357
Total Assets	\$ 10,175	\$ 9,426

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 295
Long-term debt due within one year	224	224
Accounts payable	353	367
Accounts payable to affiliates	29	42
Taxes	8	12
Interest	37	34
Regulatory liabilities	57	83
Other current liabilities	88	101
Total Current Liabilities	796	1,158
Long-term Debt	3,074	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,990	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	90	90
Total Deferred Credits and Other Noncurrent Liabilities	2,337	2,270
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154
Earnings reinvested	875	873
Total Equity	3,968	3,391
Total Liabilities and Equity	\$ 10,175	\$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154)	(154)
June 30, 2017	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,729</u>	<u>\$ 875</u>	<u>\$ 3,968</u>
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				173	173
Capital contributions from PPL			200		200
Dividends declared on common stock				(116)	(116)
June 30, 2016	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,134</u>	<u>\$ 878</u>	<u>\$ 3,376</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 723	\$ 721	\$ 1,532	\$ 1,547
Operating Expenses				
Operation				
Fuel	183	182	374	380
Energy purchases	29	28	98	94
Other operation and maintenance	192	204	399	406
Depreciation	105	100	210	199
Taxes, other than income	16	15	32	30
Total Operating Expenses	525	529	1,113	1,109
Operating Income	198	192	419	438
Other Income (Expense) - net	(4)	(5)	(6)	(6)
Interest Expense	50	48	99	97
Interest Expense with Affiliate	4	4	8	8
Income Before Income Taxes	140	135	306	327
Income Taxes	53	51	116	123
Net Income	\$ 87	\$ 84	\$ 190	\$ 204

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 87	\$ 84	\$ 190	\$ 204
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$7, (\$1), \$7, (\$1)	(11)	1	(11)	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	(1)	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial loss, net of tax of (\$1), (\$1), (\$2), (\$1)	1	1	2	2
Total other comprehensive income (loss)	(9)	2	(7)	3
Comprehensive income	\$ 78	\$ 86	\$ 183	\$ 207

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 190	\$ 204
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	210	199
Amortization	14	15
Defined benefit plans - expense	12	13
Deferred income taxes and investment tax credits	91	121
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	13	9
Accounts payable	(28)	28
Unbilled revenues	23	(14)
Fuel, materials and supplies	41	20
Taxes payable	3	(13)
Other	(21)	(23)
Other operating activities		
Defined benefit plans - funding	(29)	(45)
Expenditures for asset retirement obligations	(12)	(8)
Other assets	(2)	1
Other liabilities	6	—
Net cash provided by operating activities	<u>511</u>	<u>506</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(355)	(439)
Net cash used in investing activities	<u>(355)</u>	<u>(439)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4)	123
Issuance of long-term debt	60	—
Retirement of long-term debt	(60)	—
Net increase (decrease) in short-term debt	73	(126)
Debt issuance and credit facility costs	(1)	(1)
Distributions to member	(218)	(114)
Contributions from member	—	37
Net cash used in financing activities	<u>(150)</u>	<u>(81)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6	(14)
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	<u>\$ 19</u>	<u>\$ 16</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 83	\$ 105

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 19	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	221	235
Other	40	17
Unbilled revenues	147	170
Fuel, materials and supplies	257	297
Prepayments	32	24
Regulatory assets	23	20
Other current assets	9	4
Total Current Assets	748	780
Property, Plant and Equipment		
Regulated utility plant	12,852	12,746
Less: accumulated depreciation - regulated utility plant	1,630	1,465
Regulated utility plant, net	11,222	11,281
Construction work in progress	411	317
Property, Plant and Equipment, net	11,633	11,598
Other Noncurrent Assets		
Regulatory assets	830	824
Goodwill	996	996
Other intangibles	90	95
Other noncurrent assets	80	78
Total Other Noncurrent Assets	1,996	1,993
Total Assets	\$ 14,377	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 258	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	225	251
Accounts payable to affiliates	6	6
Customer deposits	57	56
Taxes	42	39
Price risk management liabilities	5	4
Regulatory liabilities	14	18
Interest	31	32
Asset retirement obligations	73	60
Other current liabilities	115	119
Total Current Liabilities	1,083	1,127
Long-term Debt		
Long-term debt	4,569	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,969	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,823	1,735
Investment tax credits	131	132
Accrued pension obligations	344	350
Asset retirement obligations	292	373
Regulatory liabilities	902	899
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	176	190
Total Deferred Credits and Other Noncurrent Liabilities	3,693	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,632	4,667
Total Liabilities and Equity	\$ 14,377	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2016	\$ 4,667
Net income	190
Distributions to member	(218)
Other comprehensive income	(7)
June 30, 2017	<u>\$ 4,632</u>
December 31, 2015	\$ 4,517
Net income	204
Contributions from member	37
Distributions to member	(114)
Other comprehensive income	3
June 30, 2016	<u>\$ 4,647</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 320	\$ 317	\$ 694	\$ 692
Electric revenue from affiliate	4	6	21	17
Total Operating Revenues	<u>324</u>	<u>323</u>	<u>715</u>	<u>709</u>
Operating Expenses				
Operation				
Fuel	69	69	149	147
Energy purchases	25	23	89	85
Energy purchases from affiliate	3	3	5	5
Other operation and maintenance	86	92	173	179
Depreciation	45	42	89	83
Taxes, other than income	9	7	17	15
Total Operating Expenses	<u>237</u>	<u>236</u>	<u>522</u>	<u>514</u>
Operating Income	87	87	193	195
Other Income (Expense) - net	1	(5)	(1)	(5)
Interest Expense	19	18	36	35
Income Before Income Taxes	69	64	156	155
Income Taxes	27	24	60	59
Net Income (a)	\$ 42	\$ 40	\$ 96	\$ 96

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 96	\$ 96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	89	83
Amortization	7	6
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	57	62
Change in current assets and current liabilities		
Accounts receivable	9	2
Accounts receivable from affiliates	11	(7)
Accounts payable	(17)	20
Accounts payable to affiliates	(3)	8
Unbilled revenues	14	(1)
Fuel, materials and supplies	33	29
Taxes payable	(23)	—
Other	(3)	(6)
Other operating activities		
Defined benefit plans - funding	(3)	(16)
Expenditures for asset retirement obligations	(7)	(6)
Other assets	—	(4)
Other liabilities	1	3
Net cash provided by operating activities	<u>264</u>	<u>273</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177)	(237)
Net cash used in investing activities	<u>(177)</u>	<u>(237)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	60	—
Retirement of long-term debt	(60)	—
Net increase (decrease) in short-term debt	38	(32)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(122)	(61)
Contributions from parent	—	47
Net cash used in financing activities	<u>(85)</u>	<u>(47)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2	(11)
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	<u>\$ 7</u>	<u>\$ 8</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 40	\$ 69
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 7	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	101	109
Other	11	11
Accounts receivable from affiliates	17	28
Unbilled revenues	61	75
Fuel, materials and supplies	110	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	3	1
Total Current Assets	336	393
Property, Plant and Equipment		
Regulated utility plant	5,440	5,357
Less: accumulated depreciation - regulated utility plant	566	498
Regulated utility plant, net	4,874	4,859
Construction work in progress	174	133
Property, Plant and Equipment, net	5,048	4,992
Other Noncurrent Assets		
Regulatory assets	449	450
Goodwill	389	389
Other intangibles	55	59
Other noncurrent assets	17	17
Total Other Noncurrent Assets	910	915
Total Assets	\$ 6,294	\$ 6,300

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 207	\$ 169
Long-term debt due within one year	98	194
Accounts payable	116	148
Accounts payable to affiliates	23	26
Customer deposits	27	27
Taxes	17	40
Price risk management liabilities	5	4
Regulatory liabilities	4	5
Interest	10	11
Asset retirement obligations	29	41
Other current liabilities	40	36
Total Current Liabilities	576	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,033	974
Investment tax credits	36	36
Accrued pension obligations	49	53
Asset retirement obligations	103	104
Regulatory liabilities	418	419
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	83	87
Total Deferred Credits and Other Noncurrent Liabilities	1,747	1,700
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	344	370
Total Equity	2,450	2,476
Total Liabilities and Equity	\$ 6,294	\$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				96	96
Cash dividends declared on common stock				(122)	(122)
June 30, 2017	21,294	\$ 424	\$ 1,682	\$ 344	\$ 2,450
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				96	96
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(61)	(61)
June 30, 2016	21,294	\$ 424	\$ 1,658	\$ 330	\$ 2,412

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 403	\$ 404	\$ 838	\$ 855
Electric revenue from affiliate	3	3	5	5
Total Operating Revenues	406	407	843	860
Operating Expenses				
Operation				
Fuel	114	113	225	233
Energy purchases	4	5	9	9
Energy purchases from affiliate	4	6	21	17
Other operation and maintenance	100	107	209	213
Depreciation	61	58	121	116
Taxes, other than income	7	8	15	15
Total Operating Expenses	290	297	600	603
Operating Income	116	110	243	257
Other Income (Expense) - net	(2)	1	(3)	(1)
Interest Expense	24	23	48	47
Income Before Income Taxes	90	88	192	209
Income Taxes	34	34	73	80
Net Income (a)	\$ 56	\$ 54	\$ 119	\$ 129

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 119	\$ 129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	121	116
Amortization	6	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	70	77
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	5	11
Accounts receivable from affiliates	—	1
Accounts payable	(1)	11
Accounts payable to affiliates	(15)	12
Unbilled revenues	9	(13)
Fuel, materials and supplies	8	(9)
Taxes payable	(29)	(3)
Other	(13)	(11)
Other operating activities		
Defined benefit plans - funding	(21)	(13)
Expenditures for asset retirement obligations	(5)	(2)
Other assets	(3)	(3)
Other liabilities	4	(1)
Net cash provided by operating activities	<u>257</u>	<u>311</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177)	(201)
Net cash used in investing activities	<u>(177)</u>	<u>(201)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	35	(19)
Debt issuance and credit facility costs	—	(1)
Payment of common stock dividends to parent	(110)	(113)
Contributions from parent	—	20
Net cash used in financing activities	<u>(75)</u>	<u>(113)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5	(3)
Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	<u>\$ 12</u>	<u>\$ 8</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 43	\$ 36

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 12	\$ 7
Accounts receivable (less reserve: 2017, \$2; 2016, \$2)		
Customer	120	126
Other	27	5
Unbilled revenues	86	95
Fuel, materials and supplies	147	154
Prepayments	15	12
Regulatory assets	12	11
Other current assets	6	3
Total Current Assets	425	413
Property, Plant and Equipment		
Regulated utility plant	7,404	7,382
Less: accumulated depreciation - regulated utility plant	1,062	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	236	181
Property, Plant and Equipment, net	6,578	6,598
Other Noncurrent Assets		
Regulatory assets	381	374
Goodwill	607	607
Other intangibles	35	36
Other noncurrent assets	60	57
Total Other Noncurrent Assets	1,083	1,074
Total Assets	\$ 8,086	\$ 8,085

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 51	\$ 16
Accounts payable	94	78
Accounts payable to affiliates	43	56
Customer deposits	30	29
Taxes	16	45
Regulatory liabilities	10	13
Interest	16	16
Asset retirement obligations	44	19
Other current liabilities	32	36
Total Current Liabilities	336	308
Long-term Debt	2,327	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,242	1,170
Investment tax credits	95	96
Accrued pension obligations	38	62
Asset retirement obligations	189	269
Regulatory liabilities	484	480
Other deferred credits and noncurrent liabilities	42	50
Total Deferred Credits and Other Noncurrent Liabilities	2,090	2,127
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	409	400
Total Equity	3,333	3,323
Total Liabilities and Equity	\$ 8,086	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				119		119
Cash dividends declared on common stock				(110)		(110)
Other comprehensive income					1	1
June 30, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 409</u>	<u>\$ —</u>	<u>\$ 3,333</u>
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Capital contributions from LKE			20			20
Net income				129		129
Cash dividends declared on common stock				(113)		(113)
Other comprehensive income (loss)					(1)	(1)
June 30, 2016	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 399</u>	<u>\$ (1)</u>	<u>\$ 3,322</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2016 is derived from that Registrant's 2016 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2016 Form 10-K. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and six months ended June 30, 2017, PPL Electric purchased \$288 million and \$644 million of accounts receivable from alternative energy suppliers. During the three and six months ended June 30, 2016, PPL Electric purchased \$297 million and \$679 million of accounts receivable from alternative electricity suppliers.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended June 30 are as follows:

	Three Months		Six Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 502	\$ 563	\$ 1,070	\$ 1,158
Kentucky Regulated	723	721	1,532	1,547
Pennsylvania Regulated	500	495	1,073	1,080
Corporate and Other	—	6	1	11
Total	\$ 1,725	\$ 1,785	\$ 3,676	\$ 3,796
Net Income				
U.K. Regulated (a)	\$ 148	\$ 345	\$ 434	\$ 634
Kentucky Regulated	79	76	174	188
Pennsylvania Regulated	77	78	156	172
Corporate and Other	(12)	(16)	(69)	(30)
Total	\$ 292	\$ 483	\$ 695	\$ 964

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	June 30, 2017	December 31, 2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	\$ 15,798	\$ 14,537
Kentucky Regulated	14,043	14,037
Pennsylvania Regulated	10,175	9,426
Corporate and Other (b)	(52)	315
Total	\$ 39,964	\$ 38,315

(a) Includes \$11.5 billion and \$10.8 billion of net PP&E as of June 30, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	\$ 292	\$ 483	\$ 695	\$ 964
Less amounts allocated to participating securities	—	1	1	3
Net income available to PPL common shareowners - Basic and Diluted	\$ 292	\$ 482	\$ 694	\$ 961
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	683,841	677,145	682,370	676,293
Add incremental non-participating securities:				
Share-based payment awards	2,510	3,584	2,355	3,480
Weighted-average shares - Diluted EPS	686,351	680,729	684,725	679,773
Basic EPS				
Net Income available to PPL common shareowners	\$ 0.43	\$ 0.71	\$ 1.02	\$ 1.42
Diluted EPS				
Net Income available to PPL common shareowners	\$ 0.43	\$ 0.71	\$ 1.01	\$ 1.41

For the periods ended June 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months		Six Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	564	795	1,451	2,920
DRIP	369	370	814	772

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under the ATM Program.

For the periods ended June 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Six Months	
	2017	2016	2017	2016
Stock options	696	696	696	696
Performance units	—	78	—	39

5. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are as follows.

(PPL)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 129	\$ 236	\$ 315	\$ 467
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	9	23	22
Valuation allowance adjustments	—	3	5	9
Impact of lower U.K. income tax rates	(40)	(45)	(88)	(99)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7)	—	(16)	(2)
Impact of the U.K. Finance Acts	(6)	(2)	(9)	(2)
Depreciation not normalized	(2)	(3)	(5)	(4)
Interest benefit on U.K. financing entities	(4)	(4)	(8)	(9)
Stock-based compensation	(4)	(3)	(7)	(11)
Other	—	1	(5)	—
Total increase (decrease)	(53)	(44)	(110)	(96)
Total income taxes	\$ 76	\$ 192	\$ 205	\$ 371

(a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

(PPL Electric)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 44	\$ 44	\$ 88	\$ 97
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	8	17	18
Depreciation not normalized	(2)	(2)	(4)	(3)
Stock-based compensation	(3)	(2)	(5)	(7)
Other	(1)	—	(1)	(1)
Total increase (decrease)	3	4	7	7
Total income taxes	\$ 47	\$ 48	\$ 95	\$ 104

(LKE)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 49	\$ 47	\$ 107	\$ 114
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1)	(1)	(2)	(3)
Total increase (decrease)	4	4	9	9
Total income taxes	\$ 53	\$ 51	\$ 116	\$ 123

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(LG&E)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 24	\$ 22	\$ 55	\$ 54
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	2	6	6
Other	—	—	(1)	(1)
Total increase (decrease)	3	2	5	5
Total income taxes	\$ 27	\$ 24	\$ 60	\$ 59

(KU)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 32	\$ 31	\$ 67	\$ 73
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	7	7
Other	(1)	—	(1)	—
Total increase (decrease)	2	3	6	7
Total income taxes	\$ 34	\$ 34	\$ 73	\$ 80

6. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	\$ 6	\$ 6	\$ —	\$ —
Generation formula rate	10	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	7	3	—	—
Smart meter rider	10	6	10	6
Storm costs	3	5	3	5
Other	1	1	1	1
Total current regulatory assets (a)	\$ 37	\$ 39	\$ 14	\$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 920	\$ 947	\$ 537	\$ 549
Taxes recoverable through future rates	345	340	345	340
Storm costs	40	58	—	10
Unamortized loss on debt	57	61	32	36
Interest rate swaps	124	129	—	—
Accumulated cost of removal of utility plant	162	159	162	159
AROs	245	211	—	—
Other	13	13	—	—
Total noncurrent regulatory assets	\$ 1,906	\$ 1,918	\$ 1,076	\$ 1,094

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	PPL		PPL Electric	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Liabilities:				
Generation supply charge	\$ 19	\$ 23	\$ 19	\$ 23
Transmission service charge	6	—	6	—
Universal service rider	14	14	14	14
Transmission formula rate	3	15	3	15
Fuel adjustment clause	13	11	—	—
Act 129 compliance rider	11	17	11	17
Storm damage expense	4	13	4	13
Other	1	8	—	1
Total current regulatory liabilities	\$ 71	\$ 101	\$ 57	\$ 83

Noncurrent Regulatory Liabilities:

Accumulated cost of removal of utility plant	\$ 703	\$ 700	\$ —	\$ —
Power purchase agreement - OVEC (b)	72	75	—	—
Net deferred tax assets	21	23	—	—
Defined benefit plans	27	23	—	—
Interest rate swaps	76	78	—	—
Other	3	—	—	—
Total noncurrent regulatory liabilities	\$ 902	\$ 899	\$ —	\$ —

	LKE		LG&E		KU	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	\$ 6	\$ 6	\$ 4	\$ 6	\$ 2	\$ —
Generation formula rate	10	11	—	—	10	11
Gas supply clause	7	3	7	3	—	—
Total current regulatory assets	\$ 23	\$ 20	\$ 11	\$ 9	\$ 12	\$ 11
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 383	\$ 398	\$ 238	\$ 246	\$ 145	\$ 152
Storm costs	40	48	22	26	18	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	124	129	85	88	39	41
AROs	245	211	84	70	161	141
Plant retirement costs	3	4	—	—	3	4
Other	10	9	4	4	6	5
Total noncurrent regulatory assets	\$ 830	\$ 824	\$ 449	\$ 450	\$ 381	\$ 374

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	LKE		LG&E		KU	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Liabilities:						
Demand side management	\$ —	\$ 3	\$ —	\$ 2	\$ —	\$ 1
Fuel adjustment clause	13	11	4	2	9	9
Other	1	4	—	1	1	3
Total current regulatory liabilities	\$ 14	\$ 18	\$ 4	\$ 5	\$ 10	\$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 703	\$ 700	\$ 308	\$ 305	\$ 395	\$ 395
Power purchase agreement - OVEC (b)	72	75	50	52	22	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Interest rate swaps	76	78	38	39	38	39
Other	3	—	1	—	2	—
Total noncurrent regulatory liabilities	\$ 902	\$ 899	\$ 418	\$ 419	\$ 484	\$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of \$52 million, LG&E base electricity rates of \$57 million and LG&E base gas rates of \$7 million, and incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% at LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

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Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee will revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. Louisville/Jefferson County and LG&E continue to file certain procedural motions, testimony and discovery with the KPSC. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	June 30, 2017					December 31, 2016		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 155	£ —	£ 56	£ 160	£ —	
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—	
WPD (South West)								
Syndicated Credit Facility (c)	July 2021	245	80	—	165	110	—	
WPD (East Midlands)								
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—	
WPD (West Midlands)								
Syndicated Credit Facility	July 2021	300	—	—	300	—	—	
Uncommitted Credit Facilities (e)		90	50	4	36	60	4	
Total U.K. Credit Facilities (f)		£ 1,375	£ 631	£ 4	£ 741	£ 339	£ 4	

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	Expiration Date	June 30, 2017				December 31, 2016		
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2022	\$ 950	\$ —	\$ 424	\$ 526	\$ —	\$ 20	
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility	Mar. 2018	150	—	17	133	—	17	
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$ —	\$ 441	\$ 959	\$ —	\$ 37	
PPL Electric								
Syndicated Credit Facility	Jan. 2022	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 296	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2022	\$ 500	\$ —	\$ 207	\$ 293	\$ —	\$ 169	
KU								
Syndicated Credit Facility	Jan. 2022	\$ 400	\$ —	\$ 51	\$ 349	\$ —	\$ 16	
Letter of Credit Facility	Oct. 2017	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 249	\$ 349	\$ —	\$ 214	

- (a) The amounts borrowed at June 30, 2017 and December 31, 2016 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 1.87% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £154 million as of the date borrowed.
- (b) The amount borrowed at June 30, 2017 was a GBP-denominated borrowing which equated to \$297 million and bore interest at 1.50%.
- (c) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$103 million and \$137 million and bore interest at 0.65% and 0.66%.
- (d) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$150 million and \$11 million and bore interest at 0.65% and 0.66%.
- (e) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$65 million and \$75 million and bore interest at 1.07% and 1.26%.
- (f) At June 30, 2017, the unused capacity under the U.K. credit facilities was \$956 million.

(PPL, LKE and KU)

In August 2017, the expiration date for the KU letter of credit facility was extended to October 2020.

(All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	June 30, 2017				December 31, 2016	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.46%	\$ 1,000	\$ 424	\$ 576	1.10%	\$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.35%	350	207	143	0.94%	169
KU	1.40%	350	51	299	0.87%	16
Total		\$ 2,350	\$ 682	\$ 1,668		\$ 500

(PPL Electric and LKE)

See Note 10 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

(PPL, LKE and LG&E)

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended June 30, PPL issued the following:

	Three Months		Six Months	
	2017	2016	2017	2016
Number of shares (in thousands)	2,113	—	3,477	—
Average share price	\$ 39.15	\$ —	\$ 38.17	\$ —
Net Proceeds	\$ 82	\$ —	\$ 132	\$ —

Distributions

In May 2017, PPL declared a quarterly common stock dividend, payable July 3, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and LG&E for the periods ended June 30:

	Pension Benefits								
	Three Months				Six Months				
	U.S.		U.K.		U.S.		U.K.		
	2017	2016	2017	2016	2017	2016	2017	2016	
PPL									
Service cost	\$ 15	\$ 16	\$ 18	\$ 18	\$ 32	\$ 33	\$ 37	\$ 36	
Interest cost	42	44	44	62	84	87	87	124	
Expected return on plan assets	(58)	(58)	(127)	(132)	(115)	(114)	(252)	(265)	
Amortization of:									
Prior service cost	3	3	—	—	5	4	—	—	
Actuarial loss	14	10	36	36	34	25	71	73	
Net periodic defined benefit costs (credits) before special termination benefits	16	15	(29)	(16)	40	35	(57)	(32)	
Special termination benefits (a)	(1)	—	—	—	1	—	—	—	
Net periodic defined benefit costs (credits)	\$ 15	\$ 15	\$ (29)	\$ (16)	\$ 41	\$ 35	\$ (57)	\$ (32)	

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Six Months	
	2017	2016	2017	2016
LKE				
Service cost	\$ 5	\$ 6	\$ 12	\$ 12
Interest cost	18	18	34	35
Expected return on plan assets	(24)	(24)	(46)	(45)
Amortization of:				
Prior service cost	2	3	4	4
Actuarial loss	4	5	15	10
Net periodic defined benefit costs	\$ 5	\$ 8	\$ 19	\$ 16

	Pension Benefits			
	Three Months		Six Months	
	2017	2016	2017	2016
LG&E				
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	3	4	6	7
Expected return on plan assets	(6)	(5)	(11)	(10)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss	1	1	4	3
Net periodic defined benefit costs	\$ —	\$ 2	\$ 2	\$ 3
Other Postretirement Benefits				
	Three Months		Six Months	
	2017	2016	2017	2016
PPL				
Service cost	\$ 2	\$ 2	\$ 4	\$ 4
Interest cost	6	7	12	13
Expected return on plan assets	(5)	(6)	(11)	(11)
Amortization of prior service cost	(1)	—	(1)	—
Net periodic defined benefit costs	\$ 2	\$ 3	\$ 4	\$ 6
LKE				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	3	4	5
Expected return on plan assets	(2)	(1)	(3)	(3)
Amortization of prior service cost	—	—	—	1
Net periodic defined benefit costs	\$ 1	\$ 3	\$ 3	\$ 5

(PPL Electric, LG&E and KU)

In addition to the specific plans it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Six Months	
	2017	2016	2017	2016
PPL Electric	\$ 5	\$ 5	\$ 13	\$ 11
LG&E	2	3	5	5
KU	1	3	5	6

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the six months ended June 30, 2017, WPD contributed \$485 million to its U.K. pension plans. These accelerated contributions fund all 2017 required contributions and a portion of 2018 required contributions. WPD does not expect to make additional contributions in 2017.

9. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

Cane Run Environmental Claims *(PPL, LKE and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E regarding the state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

E.W. Brown Environmental Claims *(PPL, LKE and KU)*

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs seek injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act violations, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also seek assessment of civil penalties and an award of litigation costs and attorney fees. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

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(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any, but do not expect such costs to be material.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a “special waste” landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit before the KEEC. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws, but cannot predict the outcome of legal challenges or the potential impact, if any, on plant operations, or future capital or operating costs. However, PPL, LKE, LG&E and KU believe that additional costs, if any, resulting from such legal challenges would be subject to cost recovery.

Regulatory Issues *(All Registrants)*

See Note 6 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes,

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regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

Federal environmental regulations of these criteria pollutants require states to adopt implementation plans, known as state implementation plans, for certain pollutants, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and the EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2018. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, worked together to evaluate the need for further nitrogen oxide reductions from fossil-fueled plants with SCRs. Based on regulatory developments to date, PPL, LKE, LG&E and KU do not anticipate requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Based on regulatory developments to date, PPL, LKE, LG&E and KU expect that certain previously required compliance measures, such as upgraded or new sulfur

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dioxide Scrubbers and additional sulfur dioxide limits at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, are sufficient to achieve compliance with the new sulfur dioxide and ozone standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020. Additionally, in March 2017, the President issued an Executive Order (the March 2017 Executive Order) directing the EPA to review proposed and final rules relating to GHG reductions for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules.

The future of these rules is uncertain. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. In February 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted. In addition, the President's March 2017 Executive Order requires the EPA to review the rules for new plants and existing power plants and suspend, revise or rescind them as appropriate.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new natural gas-fired plants could have a significant industry-wide impact.

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance

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through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan is ultimately upheld and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with the EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. The EPA has commenced review of the Clean Power Plan and related actions, as directed by the President's March 2017 Executive Order. In April 2017, in response to a motion filed by the EPA, the D.C. Circuit temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. In January 2017, Kentucky issued a state rule, effective May 2017, aimed at reflecting the requirements of the federal rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in state court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. PPL, LKE, LG&E and KU cannot predict the outcome of the litigation, but anticipate continued operation under the former program in the event that the new rule is struck down.

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LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 in the Registrants' 2016 Form 10-K for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 15 below and Note 19 in the Registrants' 2016 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In June 2017, the EPA published in the Federal Register a rule that would postpone applicable compliance dates until the agency completes reconsideration of the rule. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's

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ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At June 30, 2017 and December 31, 2016, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

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(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 53 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of June 30, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at June 30, 2017 and December 31, 2016 was \$22 million for PPL and \$17 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at June 30, 2017</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	92 (c)	
<u>PPL Electric</u>		
Guarantee of inventory value	15 (d)	2018
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (e)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits. In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

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- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$120 million at June 30, 2017, consisting of LG&E's share of \$83 million and KU's share of \$37 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

10. Related Party Transactions

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other, as applicable, with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended June 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Six Months	
	2017	2016	2017	2016
PPL Electric from PPL Services	\$ 44	\$ 28	\$ 95	\$ 65
LKE from PPL Services	5	4	11	9
PPL Electric from PPL EU Services	15	16	33	33
LG&E from LKS	38	41	82	88
KU from LKS	47	49	91	105

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In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a revolving line of credit with a PPL Electric subsidiary. At June 30, 2017, \$270 million was outstanding and reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at June 30, 2017 was 2.81%.

(LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2017 and December 31, 2016, \$159 million and \$163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at June 30, 2017 and December 31, 2016 were 2.56% and 2.12%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At June 30, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

Other *(PPL Electric, LG&E and KU)*

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three and six months ended June 30, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	June 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 467	\$ 467	\$ —	\$ —	\$ 341	\$ 341	\$ —	\$ —
Restricted cash and cash equivalents (a)	25	25	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	156	—	156	—	211	—	211	—
Cross-currency swaps	158	—	158	—	188	—	188	—
Total price risk management assets	314	—	314	—	399	—	399	—
Total assets	\$ 806	\$ 492	\$ 314	\$ —	\$ 766	\$ 367	\$ 399	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —
Foreign currency contracts	104	—	104	—	27	—	27	—
Total price risk management liabilities	\$ 135	\$ —	\$ 135	\$ —	\$ 58	\$ —	\$ 58	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 59	\$ 59	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 61	\$ 61	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 19	\$ 19	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Cash collateral posted to counterparties (c)	2	2	—	—	3	3	—	—
Total assets	\$ 21	\$ 21	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 30	\$ —	\$ 30	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 30	\$ —	\$ 30	\$ —	\$ 31	\$ —	\$ 31	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 7	\$ 7	\$ —	\$ —	\$ 5	\$ 5	\$ —	\$ —
Cash collateral posted to counterparties (c)	2	2	—	—	3	3	—	—
Total assets	\$ 9	\$ 9	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 30	\$ —	\$ 30	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 30	\$ —	\$ 30	\$ —	\$ 31	\$ —	\$ 31	\$ —

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	June 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 12	\$ 12	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —
Total assets	\$ 12	\$ 12	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
- (c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 19,068	\$ 22,791	\$ 18,326	\$ 21,355
PPL Electric	3,298	3,705	2,831	3,148
LKE	5,067	5,535	5,065	5,439
LG&E	1,619	1,749	1,617	1,710
KU	2,327	2,572	2,327	2,514

- (a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and

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chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

Commodity price risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of LG&E, KU or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$27 million obligation to return cash collateral under master netting arrangements at June 30, 2017 and a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at June 30, 2017 and December 31, 2016.

PPL, LKE and LG&E posted \$2 million of cash collateral under master netting arrangements at June 30, 2017 and \$3 million of cash collateral under master netting arrangements at December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At June 30, 2017, PPL held an aggregate notional value in interest rate swap contracts of £145 million (approximately \$187 million based on spot rates) that mature in 2027 to hedge the interest payments of anticipated WPD debt issuances. These swaps require a mandatory early redemption on or before November 30, 2017.

For the three and six months ended June 30, 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For the three and six months ended June 30, 2016, PPL had an insignificant amount of hedge ineffectiveness associated with interest rate derivatives.

At June 30, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and six months ended June 30, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three and six months ended June 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and six months ended June 30, 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At June 30, 2017, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At June 30, 2017, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no such contracts outstanding at June 30, 2017.

At June 30, 2017 and December 31, 2016, PPL had \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2017, the total exposure hedged by PPL was approximately £2.8 billion (approximately \$3.7 billion based on contracted rates). These contracts had termination dates ranging from July 2017 through December 2019.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at June 30, 2017 and December 31, 2016.

See Notes 1 and 17 in each Registrant's 2016 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ 1	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	28	—	—	—	32	—	—	—
Foreign currency contracts	—	—	41	60	—	—	31	21
Total current	28	1	41	65	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	25	—	—	—	27
Cross-currency swaps (b)	130	—	—	—	156	—	—	—
Foreign currency contracts	—	—	115	44	—	—	180	6
Total noncurrent	130	—	115	69	156	—	180	33
Total derivatives	\$ 158	\$ 1	\$ 156	\$ 134	\$ 188	\$ —	\$ 211	\$ 58

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2017.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (2)	\$ (2)	Interest expense	\$ (2)	\$ —	\$ (4)	\$ (1)
Cross-currency swaps	(27)	(35)	Interest expense	(1)	—	—	—
			Other income (expense) - net	(29)	—	(26)	—
Total	\$ (29)	\$ (37)		\$ (32)	\$ —	\$ (30)	\$ (1)
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ —					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative		Three Months	Six Months
Foreign currency contracts	Other income (expense) - net		\$ (113)	\$ (156)
Interest rate swaps	Interest expense		(1)	(3)
	Total		\$ (114)	\$ (159)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets		Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent		\$ (1)	\$ 1

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2016.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (3)	\$ (21)	Interest expense	\$ (2)	\$ —	\$ (3)	\$ —
Cross-currency swaps	(104)	9	Interest expense	(1)	—	—	—
			Other income (expense) - net	(103)	—	(6)	—
Total	\$ (107)	\$ (12)		\$ (106)	\$ —	\$ (9)	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ 1	\$ 4					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ 171	\$ 231
Interest rate swaps	Interest expense	(2)	(4)
	Total	\$ 169	\$ 227

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Location of Gain (Loss) Recognized as	
		Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (3)	\$ (9)

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 5	\$ —	\$ 4
Total current	—	5	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	25	—	27
Total noncurrent	—	25	—	27
Total derivatives	\$ —	\$ 30	\$ —	\$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Interest expense	\$ (1)	\$ (3)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (1)	\$ 1

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2016.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (3)	\$ (9)

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(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net

June 30, 2017

Treasury Derivatives

PPL	\$ 314	\$ 93	\$ 27	\$ 194	\$ 135	\$ 93	\$ 2	\$ 40
LKE	—	—	—	—	30	—	2	28
LG&E	—	—	—	—	30	—	2	28

December 31, 2016

Treasury Derivatives

PPL	\$ 399	\$ 27	\$ 19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At June 30, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 23	\$ 12	\$ 12
Aggregate fair value of collateral posted on these derivative instruments	2	2	2
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	21	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the six months ended June 30, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the six months ended June 30, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2016	\$ 488	\$ 433	\$ 145	\$ 288
Accretion	11	10	4	6
Effect of foreign exchange rates	2	—	—	—
Changes in estimated timing or cost	(73)	(66)	(10)	(56)
Obligations settled	(12)	(12)	(7)	(5)
Balance at June 30, 2017	<u>\$ 416</u>	<u>\$ 365</u>	<u>\$ 132</u>	<u>\$ 233</u>

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

LKE recorded decreases of \$66 million (\$56 million at KU and \$10 million at LG&E) to the existing AROs during the three and six months ended June 30, 2017 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended June 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
March 31, 2017	\$ (1,651)	\$ (14)	\$ (1)	\$ (8)	\$ (2,103)	\$ (3,777)
Amounts arising during the period	231	(24)	—	—	(11)	196
Reclassifications from AOCI	—	25	1	1	31	58
Net OCI during the period	231	1	1	1	20	254
June 30, 2017	<u>\$ (1,420)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,083)</u>	<u>\$ (3,523)</u>
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	207	(30)	—	—	(11)	166
Reclassifications from AOCI	—	24	1	1	63	89
Net OCI during the period	207	(6)	1	1	52	255
June 30, 2017	<u>\$ (1,420)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,083)</u>	<u>\$ (3,523)</u>
March 31, 2016	\$ (984)	\$ (5)	\$ —	\$ (6)	\$ (2,164)	\$ (3,159)
Amounts arising during the period	268	(85)	—	—	2	185
Reclassifications from AOCI	—	85	(1)	1	32	117
Net OCI during the period	268	—	(1)	1	34	302
June 30, 2016	<u>\$ (716)</u>	<u>\$ (5)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,130)</u>	<u>\$ (2,857)</u>
December 31, 2015	\$ (520)	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the period	(196)	(5)	—	—	2	(199)
Reclassifications from AOCI	—	7	(1)	1	63	70
Net OCI during the period	(196)	2	(1)	1	65	(129)
June 30, 2016	<u>\$ (716)</u>	<u>\$ (5)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,130)</u>	<u>\$ (2,857)</u>
LKE						
March 31, 2017			\$ —	\$ (8)	\$ (60)	\$ (68)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	(10)	(9)
June 30, 2017			<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (70)</u>	<u>\$ (77)</u>
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			1	1	2	4
Net OCI during the period			1	1	(9)	(7)
June 30, 2017			<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (70)</u>	<u>\$ (77)</u>
March 31, 2016			\$ —	\$ (10)	\$ (35)	\$ (45)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			(1)	1	1	1
Net OCI during the period			(1)	1	2	2
June 30, 2016			<u>\$ (1)</u>	<u>\$ (9)</u>	<u>\$ (33)</u>	<u>\$ (43)</u>

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2015			\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			(1)	1	2	2
Net OCI during the period			(1)	1	3	3
June 30, 2016			\$ (1)	\$ (9)	\$ (33)	\$ (43)

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

Details about AOCI	Three Months		Six Months		Affected Line Item on the Statements of Income
	2017	2016	2017	2016	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (5)	\$ (3)	Interest Expense
Cross-currency swaps	(29)	(103)	(26)	(6)	Other Income (Expense) - net
	(1)	(1)	—	—	Interest Expense
Total Pre-tax	(32)	(106)	(31)	(9)	
Income Taxes	7	21	7	2	
Total After-tax	(25)	(85)	(24)	(7)	
Equity investees' AOCI					
	(1)	1	(1)	1	Other Income (Expense) - net
Total Pre-tax	(1)	1	(1)	1	
Income Taxes	—	—	—	—	
Total After-tax	(1)	1	(1)	1	
Defined benefit plans					
Prior service costs	(1)	(1)	(1)	(1)	
Net actuarial loss	(40)	(40)	(81)	(80)	
Total Pre-tax	(41)	(41)	(82)	(81)	
Income Taxes	9	8	18	17	
Total After-tax	(32)	(33)	(64)	(64)	
Total reclassifications during the period	\$ (58)	\$ (117)	\$ (89)	\$ (70)	

17. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018.

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The Registrants have performed an assessment of a significant portion of their revenue under this new guidance to determine its effect on their current revenue recognition policies, and at this time they do not believe it will have a material impact. However, the Registrants will continue to monitor the development of industry specific application guidance which could have an impact on their assessments. The Registrants are currently assessing the disclosure requirements included in the standard, which will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Registrants will determine the transition method they will apply after the industry specific application guidance is final and the implications of using either the full retrospective or modified retrospective transition methods are known.

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance in annual reporting periods beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and will adopt this guidance effective January 1, 2018.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2016 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2017 with the same periods in 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

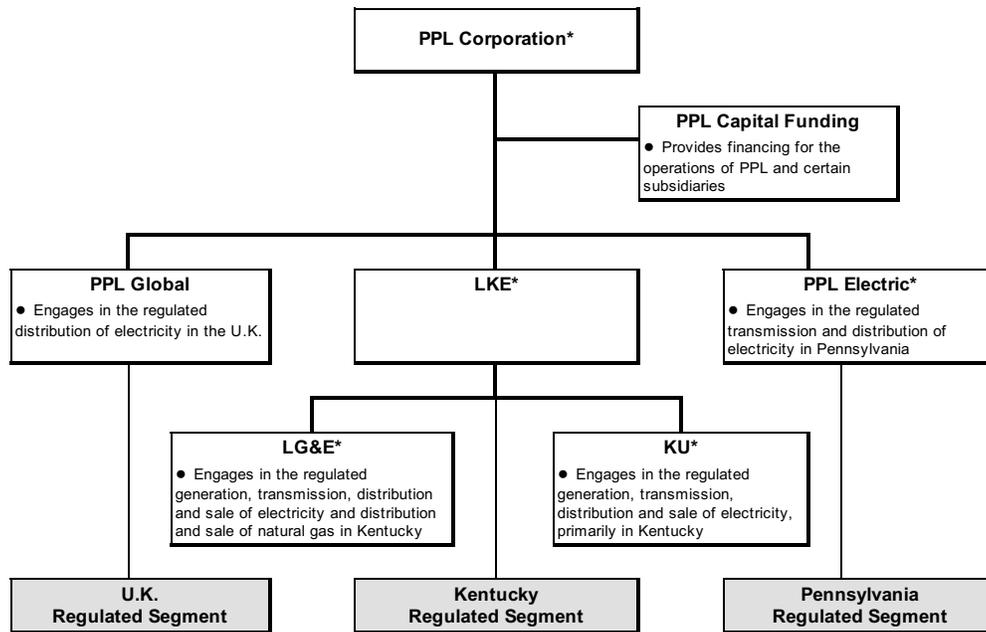
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).



PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. Although PPL Global is not a Registrant, unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and the Tennessee Regulatory Authority, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL is a fully regulated business consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base and RAV, as applicable, driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital outlay to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth after 2017 through at least 2020 at WPD. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2016 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and efficiency of operations.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to the Registrants' financial condition or results of operations. The Registrants are working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of August 2, 2017, PPL's foreign exchange exposure related to budgeted earnings is 98% hedged for the remainder of 2017 at an average rate of \$1.18 per GBP, 99% hedged for 2018 and 2019 at an average rate of \$1.37 and \$1.35 per GBP and 7% hedged for 2020 at an average rate of \$1.48 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL)

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter will be used to guide the full RIIO-2 framework consultation which is expected to be published in the first quarter of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

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(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 9 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of \$52 million, LG&E base electricity rates of \$57 million and LG&E base gas rates of \$7 million, and incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% at LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017, pending final review by the FERC.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2017 with the same periods in 2016. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

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Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU.

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income comparing the three and six months ended June 30, 2017 with the same periods in 2016. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 1,725	\$ 1,785	\$ (60)	\$ 3,676	\$ 3,796	\$ (120)
Operating Expenses						
Operation						
Fuel	183	183	—	374	380	(6)
Energy purchases	136	147	(11)	351	380	(29)
Other operation and maintenance	388	425	(37)	820	875	(55)
Depreciation	246	231	15	488	460	28
Taxes, other than income	70	74	(4)	145	153	(8)
Total Operating Expenses	1,023	1,060	(37)	2,178	2,248	(70)
Other Income (Expense) - net	(112)	174	(286)	(159)	235	(394)
Interest Expense	222	224	(2)	439	448	(9)
Income Taxes	76	192	(116)	205	371	(166)
Net Income	\$ 292	\$ 483	\$ (191)	\$ 695	\$ 964	\$ (269)

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Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
PPL Electric Distribution price (a)	\$ 19	\$ 31
PPL Electric Distribution volume	(7)	(10)
PPL Electric PLR Revenue (b)	(10)	(31)
PPL Electric Transmission Formula Rate	4	5
LKE Volumes	(8)	(45)
LKE Fuel and other energy prices (c)	7	18
LKE DSM	3	8
Other	(7)	(8)
Total Domestic	<u>1</u>	<u>(32)</u>
U.K.:		
Price	20	78
Volume	(20)	(11)
Foreign currency exchange rates	(69)	(165)
Other	8	10
Total U.K.	<u>(61)</u>	<u>(88)</u>
Total	<u>\$ (60)</u>	<u>\$ (120)</u>

(a) Distribution rider prices resulted in increases of \$13 million and \$24 million for the three and six months ended June 30, 2017.

(b) Decreases primarily due to lower energy purchase prices at PPL Electric.

(c) Increases due to higher recoveries of fuel and energy purchases primarily as a result of higher commodity costs at LKE.

Energy Purchases

Energy purchases decreased \$11 million and \$29 million for the three and six months ended June 30, 2017 compared with 2016, primarily due to lower PLR prices at PPL Electric.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
LKE plant operations and maintenance	\$ (3)	\$ (3)
LKE timing and scope of generation maintenance outages	(6)	(5)
PPL Electric Act 129	3	8
PPL Electric vegetation management	(3)	(3)
PPL Electric bad debts	(3)	(6)
Other	(4)	8
U.K.:		
Network maintenance	(2)	(9)
Foreign currency exchange rates	(6)	(15)
Pension (a)	(18)	(35)
Other	5	5
Total	<u>\$ (37)</u>	<u>\$ (55)</u>

(a) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

Depreciation

Depreciation increased \$15 million and \$28 million for the three and six months ended June 30, 2017 compared with 2016, primarily due to additional assets placed into service, net of retirements, partially offset by the impact of foreign currency exchange rates at WPD.

Other Income (Expense) - net

Other income (expense) - net decreased \$286 million and \$394 million for the three and six months ended June 30, 2017 compared with 2016, primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Long-term debt interest expense	\$ 9	\$ 13
Short-term debt interest expense	3	4
Foreign currency exchange rates	(12)	(27)
Other	(2)	1
Total	\$ (2)	\$ (9)

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Change in pre-tax income at current period tax rates	\$ (101)	\$ (140)
Valuation allowances adjustments	(3)	(4)
Impact of U.K. Finance Acts	(4)	(7)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7)	(14)
Stock-based compensation	(1)	4
Other	—	(5)
Total	\$ (116)	\$ (166)

(a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

Segment Earnings

PPL's net income by reportable segments for the periods ended June 30 were as follows:

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated	\$ 148	\$ 345	\$ (197)	\$ 434	\$ 634	\$ (200)
Kentucky Regulated	79	76	3	174	188	(14)
Pennsylvania Regulated	77	78	(1)	156	172	(16)
Corporate and Other (a)	(12)	(16)	4	(69)	(30)	(39)
Net Income	\$ 292	\$ 483	\$ (191)	\$ 695	\$ 964	\$ (269)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The changes in 2017 compared with 2016 are primarily due to the utilization of an estimated annual effective tax rate, which required the tax benefits realized in the first quarter of 2017 to be recognized over the annual period. This impact is expected to reverse through the remainder of the year.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 13 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended June 30 were as follows:

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated	\$ 212	\$ 241	\$ (29)	\$ 519	\$ 506	\$ 13
Kentucky Regulated	79	76	3	175	188	(13)
Pennsylvania Regulated	77	78	(1)	156	172	(16)
Corporate and Other	(12)	(15)	3	(69)	(28)	(41)
Earnings from Ongoing Operations	\$ 356	\$ 380	\$ (24)	\$ 781	\$ 838	\$ (57)

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 62% of PPL's Net Income for the six months ended June 30, 2017 and 40% of PPL's assets at June 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

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	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 502	\$ 563	\$ (61)	\$ 1,070	\$ 1,158	\$ (88)
Other operation and maintenance	62	85	(23)	126	182	(56)
Depreciation	57	60	(3)	112	120	(8)
Taxes, other than income	30	35	(5)	61	70	(9)
Total operating expenses	149	180	(31)	299	372	(73)
Other Income (Expense) - net	(113)	172	(285)	(156)	233	(389)
Interest Expense	97	104	(7)	191	210	(19)
Income Taxes	(5)	106	(111)	(10)	175	(185)
Net Income	148	345	(197)	434	634	(200)
Less: Special Items	(64)	104	(168)	(85)	128	(213)
Earnings from Ongoing Operations	\$ 212	\$ 241	\$ (29)	\$ 519	\$ 506	\$ 13

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended June 30.

Income Statement Line Item	Three Months		Six Months	
	2017	2016	2017	2016
Foreign currency economic hedges, net of tax of \$34, (\$56), \$46, (\$69) (a)	\$ (64)	\$ 104	\$ (85)	\$ 128
Total Special Items	\$ (64)	\$ 104	\$ (85)	\$ 128

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	Three Months	Six Months
U.K.		
Gross margins	\$ —	\$ 70
Other operation and maintenance	21	44
Depreciation	(4)	(8)
Interest expense	(6)	(8)
Other	—	(2)
Income taxes	10	5
U.S.		
Interest expense and other	2	—
Income taxes	(3)	31
Foreign currency exchange, after-tax	(49)	(119)
Earnings from Ongoing Operations	(29)	13
Special items, after-tax	(168)	(213)
Net Income	\$ (197)	\$ (200)

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U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$18 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.
- Lower other operation and maintenance expense for the six month period primarily due to \$35 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate and \$9 million from lower network maintenance expense.
- Higher interest expense for the three month period primarily due to \$7 million higher interest expense on indexed linked bonds.
- Lower income taxes for the three month period primarily due to decreases of \$6 million from 2016 expense related to the finalization of U.K. tax returns and \$4 million related to tax rate changes to deferred taxes.
- Lower income taxes for the six month period primarily due to decreases of \$10 million primarily related to accelerated tax deductions, \$6 million from 2016 expense related to the finalization of U.K. tax returns and \$6 million related to tax rate changes to deferred taxes, partially offset by an increase of \$19 million from higher pre-tax income.

U.S.

- Lower income taxes for the six month period primarily due to the tax benefit on accelerated pension contributions made in the first quarter of 2017.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 25% of PPL's Net Income for the six months ended June 30, 2017 and 35% of PPL's assets at June 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 723	\$ 721	\$ 2	\$ 1,532	\$ 1,547	\$ (15)
Fuel	183	182	1	374	380	(6)
Energy purchases	29	28	1	98	94	4
Other operation and maintenance	192	204	(12)	399	406	(7)
Depreciation	105	100	5	210	199	11
Taxes, other than income	16	15	1	32	30	2
Total operating expenses	525	529	(4)	1,113	1,109	4
Other Income (Expense) - net	(4)	(5)	1	(6)	(6)	—
Interest Expense	66	64	2	131	129	2
Income Taxes	49	47	2	108	115	(7)
Net Income	79	76	3	174	188	(14)
Less: Special Items	—	—	—	(1)	—	(1)
Earnings from Ongoing Operations	\$ 79	\$ 76	\$ 3	\$ 175	\$ 188	\$ (13)

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended June 30.

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Income Statement Line Item	Three Months		Six Months	
	2017	2016	2017	2016
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a)	\$ —	\$ —	\$ (1)	\$ —
Total Special Items	\$ —	\$ —	\$ (1)	\$ —

(a) KU recorded a write-off of an equity method investment.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months	Six Months
Kentucky Gross Margins	\$ (5)	\$ (23)
Other operation and maintenance	12	10
Depreciation	(2)	(5)
Taxes, other than income	1	(1)
Other Income (Expense) - net	1	1
Interest Expense	(2)	(2)
Income Taxes	(2)	7
Earnings from Ongoing Operations	3	(13)
Special items, after-tax	—	(1)
Net Income	\$ 3	\$ (14)

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to lower costs related to the timing and scope of generation maintenance outages of \$6 million and lower plant operations and maintenance of \$4 million.
- Lower other operation and maintenance expense for the six month period primarily due to lower costs related to the timing and scope of generation maintenance outages of \$5 million and lower plant operations and maintenance of \$4 million.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 22% of PPL's Net Income for the six months ended June 30, 2017 and 25% of PPL's assets at June 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 500	\$ 495	\$ 5	\$ 1,073	\$ 1,080	\$ (7)
Energy purchases	107	118	(11)	253	285	(32)
Other operation and maintenance	139	138	1	303	288	15
Depreciation	76	62	14	151	121	30
Taxes, other than income	23	24	(1)	52	53	(1)
Total operating expenses	345	342	3	759	747	12
Other Income (Expense) - net	5	5	—	6	8	(2)
Interest Expense	36	32	4	69	65	4
Income Taxes	47	48	(1)	95	104	(9)
Net Income	77	78	(1)	156	172	(16)
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 77	\$ 78	\$ (1)	\$ 156	\$ 172	\$ (16)

(a) There are no items that management considers special for the periods presented.

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The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Pennsylvania Gross Margins	\$ 7	\$ 8
Other operation and maintenance	2	(8)
Depreciation	(9)	(21)
Taxes, other than income	2	2
Other Income (Expense) - net	—	(2)
Interest Expense	(4)	(4)
Income Taxes	1	9
Net Income	<u>\$ (1)</u>	<u>\$ (16)</u>

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$3 million of lower bad debt expense, \$3 million of lower vegetation management expenses and \$3 million of lower payroll related expenses, partially offset by \$9 million of higher corporate service costs allocated to PPL Electric.
- Higher other operation and maintenance expense for the six month period primarily due to \$17 million of higher corporate service costs allocated to PPL Electric, partially offset by \$6 million of lower bad debt expense and \$3 million of lower vegetation management expenses.
- Higher depreciation expense for the three and six month periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended June 30.

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 148	\$ 79	\$ 77	\$ (12)	\$ 292
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$34	(64)	—	—	—	(64)
Total Special Items	(64)	—	—	—	(64)
Earnings from Ongoing Operations	<u>\$ 212</u>	<u>\$ 79</u>	<u>\$ 77</u>	<u>\$ (12)</u>	<u>\$ 356</u>

	2016 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 345	\$ 76	\$ 78	\$ (16)	\$ 483
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$56)	104	—	—	—	104
Spinoff of the Supply segment, net of tax of \$0	—	—	—	(1)	(1)
Total Special Items	104	—	—	(1)	103
Earnings from Ongoing Operations	<u>\$ 241</u>	<u>\$ 76</u>	<u>\$ 78</u>	<u>\$ (15)</u>	<u>\$ 380</u>

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	2017 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 434	\$ 174	\$ 156	\$ (69)	\$ 695
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$46	(85)	—	—	—	(85)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(85)	(1)	—	—	(86)
Earnings from Ongoing Operations	\$ 519	\$ 175	\$ 156	\$ (69)	\$ 781
	2016 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 634	\$ 188	\$ 172	\$ (30)	\$ 964
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$69)	128	—	—	—	128
Spinoff of the Supply segment, net of tax of \$1	—	—	—	(2)	(2)
Total Special Items	128	—	—	(2)	126
Earnings from Ongoing Operations	\$ 506	\$ 188	\$ 172	\$ (28)	\$ 838

Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily related to the Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

The following table shows Margins by PPL's reportable segment and by component, as applicable, for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated						
U.K. Gross Margins	\$ 469	\$ 534	\$ (65)	\$ 1,005	\$ 1,090	\$ (85)
Impact of changes in foreign currency exchange rates			(65)			(155)
U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ —			\$ 70
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 207	\$ 209	\$ (2)	\$ 433	\$ 437	\$ (4)
KU	259	262	(3)	540	559	(19)
Total Kentucky Gross Margins	\$ 466	\$ 471	\$ (5)	\$ 973	\$ 996	\$ (23)
Pennsylvania Regulated						
Pennsylvania Gross Margins						
Distribution	\$ 219	\$ 216	\$ 3	\$ 477	\$ 474	\$ 3
Transmission	115	111	4	223	218	5
Total Pennsylvania Gross Margins	\$ 334	\$ 327	\$ 7	\$ 700	\$ 692	\$ 8

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, were flat for the three months ended June 30, 2017 compared with 2016 primarily due to \$27 million from the April 1, 2016 price increase offset by \$20 million of lower volumes and \$7 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the six months ended June 30, 2017 compared with 2016 primarily due to \$85 million from the April 1, 2016 price increase partially offset by \$11 million of lower volumes and \$7 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue and the recovery of prior customer rebates.

Kentucky Gross Margins

Kentucky Gross Margins decreased for the three months ended June 30, 2017 compared with 2016 primarily due to \$5 million of lower electricity sales volumes due to milder weather in the second quarter of 2017 (\$1 million at LG&E and \$4 million at KU).

Kentucky Gross Margins decreased for the six months ended June 30, 2017 compared with 2016 primarily due to \$27 million of lower electricity sales volumes due to milder weather in 2017 (\$6 million at LG&E and \$21 million at KU).

Pennsylvania Gross Margins

Pennsylvania Gross Margins increased for the three months ended June 30, 2017 compared with 2016 primarily due to an increase of \$11 million primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$7 million decrease as a result of a lower PJM zonal peak load billing factor which affected transmission revenue in the second quarter of 2017.

Pennsylvania Gross Margins increased for the six months ended June 30, 2017 compared with 2016 primarily due to an increase of \$22 million primarily from returns on additional transmission capital investments focused on replacing aging

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infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower PJM zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended June 30.

	2017 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 491 (c)	\$ 723	\$ 500	\$ 11	\$ 1,725
Operating Expenses					
Fuel	—	183	—	—	183
Energy purchases	—	29	107	—	136
Other operation and maintenance	22	26	31	309	388
Depreciation	—	16	5	225	246
Taxes, other than income	—	3	23	44	70
Total Operating Expenses	22	257	166	578	1,023
Total	\$ 469	\$ 466	\$ 334	\$ (567)	\$ 702

	2016 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 553 (c)	\$ 721	\$ 495	\$ 16	\$ 1,785
Operating Expenses					
Fuel	—	182	—	1	183
Energy purchases	—	28	118	1	147
Other operation and maintenance	19	26	28	352	425
Depreciation	—	13	—	218	231
Taxes, other than income	—	1	22	51	74
Total Operating Expenses	19	250	168	623	1,060
Total	\$ 534	\$ 471	\$ 327	\$ (607)	\$ 725

	2017 Six Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,050 (c)	\$ 1,532	\$ 1,073	\$ 21	\$ 3,676
Operating Expenses					
Fuel	—	374	—	—	374
Energy purchases	—	98	253	—	351
Other operation and maintenance	45	52	60	663	820
Depreciation	—	32	9	447	488
Taxes, other than income	—	3	51	91	145
Total Operating Expenses	45	559	373	1,201	2,178
Total	\$ 1,005	\$ 973	\$ 700	\$ (1,180)	\$ 1,498

	2016 Six Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,137 (c)	\$ 1,547	\$ 1,080	\$ 32	\$ 3,796
Operating Expenses					
Fuel	—	380	—	—	380
Energy purchases	—	94	285	1	380
Other operation and maintenance	47	49	53	726	875
Depreciation	—	26	—	434	460
Taxes, other than income	—	2	50	101	153
Total Operating Expenses	47	551	388	1,262	2,248
Total	\$ 1,090	\$ 996	\$ 692	\$ (1,230)	\$ 1,548

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$10 million and \$20 million for the three and six months ended June 30, 2017 and \$10 million and \$21 million for the three and six months ended June 30, 2016.

2017 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2017 compared with 2016 primarily driven by a lower assumed GBP exchange rate in 2017, lower true-up mechanisms, lower incentive revenues, higher interest expense and higher depreciation expense, partially offset by lower operation and maintenance expense, including pension expense, and higher base revenue from the April 1, 2017 price reset.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Lower net income is projected in 2017 compared with 2016 primarily driven by lower electricity sales volumes due to unfavorable weather in 2017 and higher depreciation expense, partially offset by electricity and gas base rate increases.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016 primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 9 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2016 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 500	\$ 495	\$ 5	\$ 1,073	\$ 1,080	\$ (7)
Operating Expenses						
Operation						
Energy purchases	107	118	(11)	253	285	(32)
Other operation and maintenance	138	137	1	302	287	15
Depreciation	76	62	14	151	121	30
Taxes, other than income	23	24	(1)	52	53	(1)
Total Operating Expenses	344	341	3	758	746	12
Other Income (Expense) - net	3	5	(2)	4	8	(4)
Interest Income from Affiliate	1	—	1	1	—	1
Interest Expense	36	32	4	69	65	4
Income Taxes	47	48	(1)	95	104	(9)
Net Income	\$ 77	\$ 79	\$ (2)	\$ 156	\$ 173	\$ (17)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Distribution Price (a)	\$ 19	\$ 31
Distribution volume	(7)	(10)
PLR (b)	(10)	(31)
Transmission Formula Rate	4	5
Other	(1)	(2)
Total	\$ 5	\$ (7)

(a) Distribution rider prices resulted in increases of \$13 million and \$24 million for the three and six months ended June 30, 2017.

(b) Decrease primarily due to lower energy prices as described below.

Energy Purchases

Energy purchases decreased \$11 million for the three months ended June 30, 2017 compared with 2016 primarily due to lower PLR prices of \$9 million and lower PLR volumes of \$1 million.

Energy purchases decreased \$32 million for the six months ended June 30, 2017 compared with 2016 primarily due to lower PLR prices of \$32 million, partially offset by higher PLR volumes of \$3 million.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2017 compared with 2016 was due to:

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	Three Months	Six Months
Corporate service costs	\$ 9	\$ 17
Vegetation management	(3)	(3)
Payroll-related costs	(3)	(1)
Act 129	3	8
Bad debts	(3)	(6)
Other	(2)	—
Total	<u>\$ 1</u>	<u>\$ 15</u>

Depreciation

Depreciation increased \$14 million and \$30 million for the three and six months ended June 30, 2017 compared with 2016, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Interest Expense

Interest expense increased \$4 million for the three and six months ended June 30, 2017, compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Change in pre-tax income at current period tax rates	\$ —	\$ (10)
Stock-based compensation	(1)	2
Other	—	(1)
Total	<u>\$ (1)</u>	<u>\$ (9)</u>

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$ 77	\$ 79	\$ 156	\$ 173
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items that management considers special for the periods presented.

Earnings decreased for the three month period in 2017 compared with 2016 as higher transmission margins from additional capital investments were offset by the impact of a lower PJM zonal peak load billing factor and higher depreciation expense.

Earnings decreased for the six month period in 2017 compared with 2016 primarily due to higher depreciation expense, primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements, and higher other operation and maintenance expense, primarily due to higher corporate service costs. Higher transmission margins from additional capital investments were partially offset by the impact of a lower PJM zonal peak load billing factor.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Six Months
Pennsylvania Gross Margins	\$ 7	\$ 8
Other operation and maintenance	2	(8)
Depreciation	(9)	(21)
Taxes, other than income	2	2
Other Income (Expense) - net	(1)	(3)
Interest Expense	(4)	(4)
Income Taxes	1	9
Net Income	<u>\$ (2)</u>	<u>\$ (17)</u>

Margins

"Pennsylvania Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2017 Three Months			2016 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 500	\$ —	\$ 500	\$ 495	\$ —	\$ 495
Operating Expenses						
Energy purchases	107	—	107	118	—	118
Other operation and maintenance	31	107	138	28	109	137
Depreciation	5	71	76	—	62	62
Taxes, other than income	23	—	23	22	2	24
Total Operating Expenses	<u>166</u>	<u>178</u>	<u>344</u>	<u>168</u>	<u>173</u>	<u>341</u>
Total	<u>\$ 334</u>	<u>\$ (178)</u>	<u>\$ 156</u>	<u>\$ 327</u>	<u>\$ (173)</u>	<u>\$ 154</u>

	2017 Six Months			2016 Six Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,073	\$ —	\$ 1,073	\$ 1,080	\$ —	\$ 1,080
Operating Expenses						
Energy purchases	253	—	253	285	—	285
Other operation and maintenance	60	242	302	53	234	287
Depreciation	9	142	151	—	121	121
Taxes, other than income	51	1	52	50	3	53
Total Operating Expenses	<u>373</u>	<u>385</u>	<u>758</u>	<u>388</u>	<u>358</u>	<u>746</u>
Total	<u>\$ 700</u>	<u>\$ (385)</u>	<u>\$ 315</u>	<u>\$ 692</u>	<u>\$ (358)</u>	<u>\$ 334</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 723	\$ 721	\$ 2	\$ 1,532	\$ 1,547	\$ (15)
Operating Expenses						
Operation						
Fuel	183	182	1	374	380	(6)
Energy purchases	29	28	1	98	94	4
Other operation and maintenance	192	204	(12)	399	406	(7)
Depreciation	105	100	5	210	199	11
Taxes, other than income	16	15	1	32	30	2
Total Operating Expenses	525	529	(4)	1,113	1,109	4
Other Income (Expense) - net	(4)	(5)	1	(6)	(6)	—
Interest Expense	50	48	2	99	97	2
Interest Expense with Affiliate	4	4	—	8	8	—
Income Taxes	53	51	2	116	123	(7)
Net Income	\$ 87	\$ 84	\$ 3	\$ 190	\$ 204	\$ (14)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Volumes	\$ (8)	\$ (45)
Fuel and other energy prices (a)	7	18
DSM	3	8
Other	—	4
Total	\$ 2	\$ (15)

(a) Increases due to higher recoveries of fuel and energy purchases due to higher commodity costs.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Plant operations and maintenance	\$ (3)	\$ (3)
Timing and scope of generation maintenance outages	(6)	(5)
Storm costs	(1)	—
Other	(2)	1
Total	\$ (12)	\$ (7)

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$ 87	\$ 84	\$ 190	\$ 204
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings increased for the three month period in 2017 compared with 2016 primarily due to lower other operation and maintenance expense.

Earnings decreased for the six month period in 2017 compared with 2016 primarily due to lower electricity sales volumes driven by milder weather in 2017.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months	Six Months
Margins	\$ (5)	\$ (23)
Other operation and maintenance	12	10
Depreciation	(2)	(5)
Taxes, other than income	1	(1)
Other Income (Expense) - net	1	1
Interest Expense	(2)	(2)
Income Taxes	(2)	7
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	\$ 3	\$ (14)

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 723	\$ —	\$ 723	\$ 721	\$ —	\$ 721
Operating Expenses						
Fuel	183	—	183	182	—	182
Energy purchases	29	—	29	28	—	28
Other operation and maintenance	26	166	192	26	178	204
Depreciation	16	89	105	13	87	100
Taxes, other than income	3	13	16	1	14	15
Total Operating Expenses	257	268	525	250	279	529
Total	\$ 466	\$ (268)	\$ 198	\$ 471	\$ (279)	\$ 192

	2017 Six Months			2016 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,532	\$ —	\$ 1,532	\$ 1,547	\$ —	\$ 1,547
Operating Expenses						
Fuel	374	—	374	380	—	380
Energy purchases	98	—	98	94	—	94
Other operation and maintenance	52	347	399	49	357	406
Depreciation	32	178	210	26	173	199
Taxes, other than income	3	29	32	2	28	30
Total Operating Expenses	559	554	1,113	551	558	1,109
Total	\$ 973	\$ (554)	\$ 419	\$ 996	\$ (558)	\$ 438

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 320	\$ 317	\$ 3	\$ 694	\$ 692	\$ 2
Electric revenue from affiliate	4	6	(2)	21	17	4
Total Operating Revenues	324	323	1	715	709	6
Operating Expenses						
Operation						
Fuel	69	69	—	149	147	2
Energy purchases	25	23	2	89	85	4
Energy purchases from affiliate	3	3	—	5	5	—
Other operation and maintenance	86	92	(6)	173	179	(6)
Depreciation	45	42	3	89	83	6
Taxes, other than income	9	7	2	17	15	2
Total Operating Expenses	237	236	1	522	514	8
Other Income (Expense) - net	1	(5)	6	(1)	(5)	4
Interest Expense	19	18	1	36	35	1
Income Taxes	27	24	3	60	59	1
Net Income	\$ 42	\$ 40	\$ 2	\$ 96	\$ 96	\$ —

[Table of Contents](#)**Operating Revenues**

The increase (decrease) in operating revenues for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Volumes	\$ (5)	\$ (10)
Fuel and other energy prices (a)	4	8
DSM	1	4
Other	1	4
Total	\$ 1	\$ 6

(a) Increases due to higher recoveries of fuel and energy purchases due to higher commodity costs.

Other Operation and Maintenance

The decrease in other operation and maintenance for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Plant operations and maintenance	\$ (1)	\$ (1)
Timing and scope of generation maintenance outages	(1)	(1)
Storm costs	(1)	(1)
Other	(3)	(3)
Total	\$ (6)	\$ (6)

Depreciation

Depreciation increased \$3 million and \$6 million for the three and six months ended June 30, 2017 compared with 2016 primarily due to additions to PP&E, net of retirements.

Income Taxes

Income taxes increased \$3 million and \$1 million for the three and six months ended June 30, 2017 compared with 2016 primarily due to higher pre-tax income.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$ 42	\$ 40	\$ 96	\$ 96
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings increased for the three month period in 2017 compared with 2016 primarily due to lower other operation and maintenance expense.

Earnings remained flat for the six month period in 2017 compared with 2016 primarily due to lower other operation and maintenance expense, offset by lower sales volumes driven by milder weather in 2017 and higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Six Months
Margins	\$ (2)	\$ (4)
Other operation and maintenance	5	6
Depreciation	(2)	(2)
Taxes, other than income	(1)	(2)
Other Income (Expense) - net	6	4
Interest Expense	(1)	(1)
Income Taxes	(3)	(1)
Net Income	<u>\$ 2</u>	<u>\$ —</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 324	\$ —	\$ 324	\$ 323	\$ —	\$ 323
Operating Expenses						
Fuel	69	—	69	69	—	69
Energy purchases, including affiliate	28	—	28	26	—	26
Other operation and maintenance	10	76	86	11	81	92
Depreciation	8	37	45	7	35	42
Taxes, other than income	2	7	9	1	6	7
Total Operating Expenses	117	120	237	114	122	236
Total	<u>\$ 207</u>	<u>\$ (120)</u>	<u>\$ 87</u>	<u>\$ 209</u>	<u>\$ (122)</u>	<u>\$ 87</u>

	2017 Six Months			2016 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 715	\$ —	\$ 715	\$ 709	\$ —	\$ 709
Operating Expenses						
Fuel	149	—	149	147	—	147
Energy purchases, including affiliate	94	—	94	90	—	90
Other operation and maintenance	20	153	173	20	159	179
Depreciation	17	72	89	13	70	83
Taxes, other than income	2	15	17	2	13	15
Total Operating Expenses	282	240	522	272	242	514
Total	<u>\$ 433</u>	<u>\$ (240)</u>	<u>\$ 193</u>	<u>\$ 437</u>	<u>\$ (242)</u>	<u>\$ 195</u>

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 403	\$ 404	\$ (1)	\$ 838	\$ 855	\$ (17)
Electric revenue from affiliate	3	3	—	5	5	—
Total Operating Revenues	406	407	(1)	843	860	(17)
Operating Expenses						
Operation						
Fuel	114	113	1	225	233	(8)
Energy purchases	4	5	(1)	9	9	—
Energy purchases from affiliate	4	6	(2)	21	17	4
Other operation and maintenance	100	107	(7)	209	213	(4)
Depreciation	61	58	3	121	116	5
Taxes, other than income	7	8	(1)	15	15	—
Total Operating Expenses	290	297	(7)	600	603	(3)
Other Income (Expense) - net	(2)	1	(3)	(3)	(1)	(2)
Interest Expense	24	23	1	48	47	1
Income Taxes	34	34	—	73	80	(7)
Net Income	\$ 56	\$ 54	\$ 2	\$ 119	\$ 129	\$ (10)

Operating Revenue

The increase (decrease) in operating revenue for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Volumes	\$ (6)	\$ (30)
Fuel and other energy prices (a)	2	8
DSM	2	4
Other	1	1
Total	\$ (1)	\$ (17)

(a) Increases due to higher recoveries of fuel due to higher commodity costs.

Fuel

Fuel decreased \$8 million for the six months ended June 30, 2017 compared with 2016 primarily due to a \$17 million decrease in volumes driven by milder weather in the first quarter of 2017, partially offset by a \$9 million increase in fuel prices.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2017 compared with 2016 was due to:

	Three Months	Six Months
Plant operations and maintenance	\$ (2)	\$ (1)
Timing and scope of generation maintenance outages	(4)	(4)
Other	(1)	1
Total	<u>\$ (7)</u>	<u>\$ (4)</u>

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$ 56	\$ 54	\$ 119	\$ 129
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings increased for the three month period in 2017 compared with 2016 primarily due to lower other operation and maintenance expense.

Earnings decreased for the six month period in 2017 compared with 2016 primarily due to lower sales volumes driven by milder weather in 2017, partially offset by lower other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Margins	\$ (3)	\$ (19)
Other operation and maintenance	8	7
Depreciation	(1)	(3)
Taxes, other than income	2	1
Other Income (Expense) - net	(3)	(1)
Interest Expense	(1)	(1)
Income Taxes	—	7
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	<u>\$ 2</u>	<u>\$ (10)</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

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	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 406	\$ —	\$ 406	\$ 407	\$ —	\$ 407
Operating Expenses						
Fuel	114	—	114	113	—	113
Energy purchases, including affiliate	8	—	8	11	—	11
Other operation and maintenance	16	84	100	15	92	107
Depreciation	8	53	61	6	52	58
Taxes, other than income	1	6	7	—	8	8
Total Operating Expenses	147	143	290	145	152	297
Total	\$ 259	\$ (143)	\$ 116	\$ 262	\$ (152)	\$ 110

	2017 Six Months			2016 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 843	\$ —	\$ 843	\$ 860	\$ —	\$ 860
Operating Expenses						
Fuel	225	—	225	233	—	233
Energy purchases, including affiliate	30	—	30	26	—	26
Other operation and maintenance	32	177	209	29	184	213
Depreciation	15	106	121	13	103	116
Taxes, other than income	1	14	15	—	15	15
Total Operating Expenses	303	297	600	301	302	603
Total	\$ 540	\$ (297)	\$ 243	\$ 559	\$ (302)	\$ 257

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
June 30, 2017					
Cash and cash equivalents	\$ 467	\$ 59	\$ 19	\$ 7	\$ 12
Notes receivable from affiliate		270	—	—	—
Short-term debt	1,497	—	258	207	51
Notes payable with affiliate		—	159	—	—
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Notes payable with affiliate		—	163	—	—

- (a) At June 30, 2017, \$92 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2016 Form 10-K for additional information on undistributed earnings of WPD.

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Net cash provided by (used in) operating, investing and financing activities for the six month periods ended June 30, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2017					
Operating activities	\$ 790	\$ 279	\$ 511	\$ 264	\$ 257
Investing activities	(1,382)	(824)	(355)	(177)	(177)
Financing activities	711	591	(150)	(85)	(75)
2016					
Operating activities	\$ 1,170	\$ 328	\$ 506	\$ 273	\$ 311
Investing activities	(1,347)	(427)	(439)	(237)	(201)
Financing activities	(152)	87	(81)	(47)	(113)
Change - Cash Provided (Used)					
Operating activities	\$ (380)	\$ (49)	\$ 5	\$ (9)	\$ (54)
Investing activities	(35)	(397)	84	60	24
Financing activities	863	504	(69)	(38)	38

Operating Activities

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2017 compared with 2016 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ (269)	\$ (17)	\$ (14)	\$ —	\$ (10)
Non-cash components	233	13	(20)	1	(3)
Working capital	(57)	(15)	24	(24)	(35)
Defined benefit plan funding	(328)	(24)	16	13	(8)
Other operating activities	41	(6)	(1)	1	2
Total	<u>\$ (380)</u>	<u>\$ (49)</u>	<u>\$ 5</u>	<u>\$ (9)</u>	<u>\$ (54)</u>

(PPL)

PPL's cash provided by operating activities in 2017 decreased \$380 million compared with 2016.

- The \$233 million increase in non-cash components was primarily due to an increase in unrealized losses on derivatives partially offset by a decrease in deferred income tax expense.
- The \$57 million decrease in cash from changes in working capital was primarily due to a decrease in counterparty collateral, a decrease in accounts payable (primarily due to timing of payments) and a decrease in taxes payable (primarily due to an increase in current income tax benefit in 2017) partially offset by a decrease in unbilled revenue (primarily due to a decrease in volumes due to less favorable weather in 2017 compared to 2016) and a decrease in fuel, materials and supplies (primarily due to a decrease in fuel purchases due to less favorable weather in 2017 compared to 2016).
- Defined benefit plan funding was \$328 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans. See Note 8 to the Financial Statements for additional information.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2017 decreased \$49 million compared with 2016.

- The \$15 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to higher tax payments) and a decrease in accounts payable (primarily due to timing of payments) partially offset by a net decrease in current regulatory assets and regulatory liabilities (due to the timing of rate recovery mechanisms) and decreases in accounts receivable from customers and unbilled revenues, primarily due to unfavorable weather in 2017.

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- Defined benefit plan funding was \$24 million higher in 2017.

(LKE)

LKE's cash provided by operating activities in 2017 increased \$5 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by decreases in accounts receivable from customers and unbilled revenues due to less favorable weather in 2017 compared to 2016, an increase in taxes payable due to timing of payments, and a decrease in fuel purchases due to less favorable weather in 2017 compared to 2016, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.

(LG&E)

LG&E's cash provided by operating activities in 2017 decreased \$9 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in taxes payable due to timing of payments, accounts payable due to timing of fuel purchases and payments and accounts payable to affiliates due to timing of intercompany settlements associated with operational expenses and inventory, partially offset by decreases in accounts receivable from customers and unbilled revenues due to less favorable weather in 2017 compared to 2016 and accounts receivable from affiliates due to timing of intercompany settlements associated with inventory and energy sales to KU.

(KU)

KU's cash provided by operating activities in 2017 decreased \$54 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in accounts payable due to the timing of fuel purchases and payments, taxes payable due to timing of payments and accounts payable to affiliates due to the timing of intercompany settlements associated with operational expenses and inventory, partially offset by a decrease in accounts receivable from customers and unbilled revenues due to less favorable weather in 2017 compared to 2016.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the six months ended June 30, 2017 compared with 2016 was as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Decrease (Increase)	\$ (27)	\$ (126)	\$ 84	\$ 60	\$ 24

For PPL, the increase in expenditures was due to higher project expenditures at PPL Electric partially offset by lower project expenditures at WPD, LG&E and KU. The increase in expenditures for PPL Electric was primarily due to the Act 129 Smart Meter program and various enhancement reliability projects. The decrease in expenditures for WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability. The decrease in expenditures for LG&E was primarily due to reduced spending for environmental air projects at LG&E's Mill Creek plant. The decrease in expenditures for KU was primarily due to reduced spending for environmental air projects at KU's Ghent plant.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2017 compared with 2016 were as follows.

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	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 198	\$ 470	\$ —	\$ —	\$ —
Settlement of cross-currency swaps	(46)	—	—	—	—
Stock issuances/redemptions, net	101	—	—	—	—
Dividends	(16)	(37)	—	(61)	3
Capital contributions/distributions, net	—	375	(141)	(47)	(20)
Change in short-term debt, net	620	(301)	199	70	54
Notes payable with affiliate	—	—	(127)	—	—
Other financing activities	6	(3)	—	—	1
Total	\$ 863	\$ 504	\$ (69)	\$ (38)	\$ 38

See Note 7 to the Financial Statements in this Form 10-Q for information on 2017 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2016 Form 10-K for information on 2016 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At June 30, 2017, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 441	\$ 959
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	207	293
KU Credit Facilities	598	—	249	349
Total LKE	1,173	—	456	717
Total U.S. Credit Facilities (a)	\$ 3,223	\$ —	\$ 898	\$ 2,325
Total U.K. Credit Facilities (b)	£ 1,285	£ 581	£ —	£ 705

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.
- (b) The amounts borrowed at June 30, 2017 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$550 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £154 million as of the date borrowed. At June 30, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$910 million.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 20% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

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Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 159	\$ —	\$ 66
LG&E Money Pool (a)	500	—	207	293
KU Money Pool (a)	500	—	51	449

(a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 10 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper *(All Registrants)*

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at June 30, 2017:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 424	\$ 576
PPL Electric	650	—	650
LG&E	350	207	143
KU	350	51	299
Total LKE	700	258	442
Total PPL	\$ 2,350	\$ 682	\$ 1,668

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

(PPL, LKE and LG&E)

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of

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LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

(PPL)

ATM Program

For the periods ended June 30, 2017, PPL issued the following:

	<u>Three Months</u>	<u>Six Months</u>
Number of shares (in thousands)	2,113	3,477
Average share price	\$ 39.15	\$ 38.17
Net Proceeds	\$ 82	\$ 132

See Note 7 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In May 2017, PPL declared a quarterly common stock dividend, payable July 3, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2017:

(PPL and PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$475 million 3.95% First Mortgage Bonds due 2047.

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(PPL, LKE and LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed a rating of A to LG&E's \$128 million 1.5% Series A Pollution Control Revenue Bonds due 2033.

In May 2017, Moody's assigned a rating of A1, and in June 2017, S&P confirmed a rating of A to LG&E's \$31 million 1.25% Series A Environmental Facilities Revenue Refunding Bonds due 2033.

In May 2017, Moody's assigned a rating of A1, and in June 2017, S&P confirmed a rating of A to LG&E's \$35 million 1.25% Series B Environmental Facilities Revenue Refunding Bonds due 2033.

In May 2017, Moody's and S&P assigned ratings of A1 and A to LG&E's \$60 million 3.75% Series A Pollution Control Revenue Bonds due 2033.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 13 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at June 30, 2017.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2016 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 12 and 13 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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The following interest rate hedges were outstanding at June 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 187	\$ (2)	\$ (2)	2027
Cross-currency swaps (c)	802	161	(91)	2028
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(30)	(2)	2033

- (a) Includes accrued interest, if applicable.
 (b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.
 (c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.
 (d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at June 30, 2017 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at June 30, 2017 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 578
PPL Electric	166
LKE	175
LG&E	64
KU	97

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at June 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b)	£ 2,770	\$ 52	\$ (335)	2019

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
 (b) To economically hedge the translation risk of expected earnings denominated in GBP.

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(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 12 and 13 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2016 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$207 million for the six months ended June 30, 2017, which primarily reflected a \$367 million increase to PP&E and a \$79 million increase to goodwill partially offset by a \$216 million increase to long-term debt and a \$23 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$199 million for the six months ended June 30, 2016, which primarily reflected a \$398 million decrease to PP&E and \$95 million decrease to goodwill partially offset by a \$246 million decrease to long-term debt and a \$48 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 10 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2016 Form 10-K for information on the more significant activities.

Environmental Matters *(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the

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Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. In addition, the regulatory reviews specified in the President's March 2017 Executive Order promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 9 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines, and
- National Ambient Air Quality Standards.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2016 Form 10-K for additional information on environmental matters.

New Accounting Guidance *(All Registrants)*

See Note 17 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2016 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Price Risk Management	X				
Regulatory Assets and Liabilities	X	X	X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2017, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2016 Form 10-K; and
- Notes 6 and 9 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2016 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

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- [4\(a\)](#) - Supplemental Indenture No. 19, dated as of May 1, 2017, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 11, 2017)
- [4\(b\)](#) - Loan Agreement dated as of June 1, 2017 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- [4\(c\)](#) - Supplemental Indenture No. 6, dated as of May 15, 2017, of Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- *10(a) - Amendment No. 1, dated as of August 1, 2017, to Letter of Credit Agreement, dated as of October 1, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent
- [\[110\(b\)](#) - PPL Corporation Amended and Restated 2012 Stock Incentive Plan (Annex B to Definitive Proxy Statement on Schedule 14A filed on April 5, 2017)
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(c) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(d) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *12(e) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2017, filed by the following officers for the following companies:

- *31(a) - PPL Corporation's principal executive officer
- *31(b) - PPL Corporation's principal financial officer
- *31(c) - PPL Electric Utilities Corporation's principal executive officer
- *31(d) - PPL Electric Utilities Corporation's principal financial officer
- *31(e) - LG&E and KU Energy LLC's principal executive officer
- *31(f) - LG&E and KU Energy LLC's principal financial officer
- *31(g) - Louisville Gas and Electric Company's principal executive officer
- *31(h) - Louisville Gas and Electric Company's principal financial officer
- *31(i) - Kentucky Utilities Company's principal executive officer
- *31(j) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2017, furnished by the following officers for the following companies:

- *32(a) - PPL Corporation's principal executive officer and principal financial officer
- *32(b) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- *32(c) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- *32(d) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- *32(e) - Kentucky Utilities Company's principal executive officer and principal financial officer

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101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: August 3, 2017

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: August 3, 2017

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: August 3, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

AMENDMENT NO. 1 TO LETTER OF CREDIT AGREEMENT

AMENDMENT dated as of August 1, 2017 (this "Amendment") to the Letter of Credit Agreement dated as of October 1, 2014 (as amended, amended and restated or otherwise modified prior to the date hereof, the "Existing Letter of Credit Agreement"; and as amended hereby, the "Amended Letter of Credit Agreement") among KENTUCKY UTILITIES COMPANY (the "Borrower"), the LENDERS party thereto (the "Lenders") and THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH ("BTMU"), as the Administrative Agent (the "Administrative Agent") and as Issuing Lender and Lender.

WITNESSETH:

WHEREAS, the parties hereto desire to amend the Existing Letter of Credit Agreement to (i) extend the scheduled Termination Date and (ii) make certain other amendments, all as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Amended Letter of Credit Agreement has the meaning assigned to such term in the Amended Letter of Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Existing Letter of Credit Agreement shall, after this Amendment becomes effective, refer to the Amended Letter of Credit Agreement.

SECTION 2. *Letter of Credit Agreement Amendments.* With effect from and including the Amendment Effective Date (as defined below), and subject to the satisfaction of the conditions precedent set forth in Section 6 below, the Existing Letter of Credit Agreement is hereby amended as follows:

(a) *Defined Terms.*

(i) Section 1.01 of the Existing Letter of Credit Agreement is amended by amending the definitions of the terms listed below as follows:

(A) The definition of "FATCA" is amended by replacing the phrase "Section 1471(b) of the Code" with the following: "Section 1471(b) of the Internal Revenue Code".

(B) The definition of "Lender Default" is amended by adding the following new clause (v) after clause (iv) and immediately preceding the proviso thereto:

“, or (v) the Lender becomes the subject of a Bail-In Action”

(ii) Section 1.01 of the Existing Letter of Credit Agreement is amended by replacing the definitions of the terms listed below in their entirety with the following:

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time, including any Lender subject to a Bail-In Action. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, the Issuing Lenders and each other Lender.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to the nearest 1/100th of 1%) charged by BTMU on such day on such transactions as determined by the Administrative Agent; provided, further, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Fee Letter” means, collectively, (i) the fee letter dated as of October 1, 2014, among the Borrower and BTMU and (ii) the Amendment No. 1 Fee Letter, in each case as amended, modified or supplemented from time to time.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Administrative Agent from another recognized source or interbank quotation); provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Sanctioned Country” means a country, region or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Crimea, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom or any other applicable sanctions authority.

“Termination Date” means the earlier to occur of (i) October 1, 2020, and (ii) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

(iii) Section 1.01 of the Existing Letter of Credit Agreement is amended by inserting the following definitions in their correct alphabetical order:

“Amendment No. 1 Closing Date” means August 1, 2017.

“Amendment No. 1 Fee Letter” means that certain fee letter dated as of August 1, 2017 among the Borrower and BTMU.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise or branch profits or similar taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“Other Connection Taxes” means, with respect to the Administrative Agent or Lender, taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto imposed as a result of a present or former connection between such Person and the jurisdiction imposing such tax (other than connections arising from such Person having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

(b) *Increased Costs; Taxes.*

- (i) Section 2.08(a)(ii) of the Existing Letter of Credit Agreement is amended and replaced in its entirety with the following: “(ii) subject any Lender or any Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Loan made by it, or change the basis of taxation of payments to such Lender or such Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clause (i)(a) and clauses (ii) through (iv) of the

definition of Taxes in Section 2.09(a), (D) Connection Income Taxes, and (E) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with Section 2.09(e) or".

- (ii) Section 2.09(a)(i) of the Existing Letter of Credit Agreement is amended by:
 - (A) inserting "(x)" after "Lender" where it first appears therein;
 - (B) replacing "principal executive office" where it appears therein with "principal office"; and
 - (C) inserting "or (y) that are Other Connection Taxes" at the end thereof.
- (iii) Section 2.09(e)(ii)(C) of the Existing Letter of Credit Agreement is amended by replacing "Code" where it first appears therein with "Internal Revenue Code".
- (iv) Section 2.09(e)(iii)(y) of the Existing Letter of Credit Agreement is amended by replacing "Code" where it appears therein with "Internal Revenue Code".
- (v) The first Section 2.09(e) of the Existing Letter of Credit Agreement is amended by inserting the following sentence immediately prior to the second to last sentence thereof:

"For purposes of determining withholding Taxes imposed under FATCA, the Borrower and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) this Agreement and any Loan or Letter of Credit issued under or pursuant to this Agreement as not qualifying as a "grandfathered obligation" within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i) or Treasury Regulation Section 1.1471-2T(b)(2)(i)."

- (vi) The second Section 2.09(e), Section 2.09(f) and Section 2.09(g) of the Existing Letter of Credit Agreement are renumbered as Section 2.09(f), Section 2.09(g) and Section 2.09(h), respectively.

(c) *Representations and Warranties.*

- (i) Sections 5.04(a) and 5.04(c) of the Existing Letter of Credit Agreement are amended and restated by replacing "December 31, 2013" where it appears therein with "December 31, 2016".
- (ii) Section 5.04(b) is amended and replaced in its entirety with the following: "The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of March 31, 2017 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments)."

(iii) Section 5.08 of the Existing Letter of Credit Agreement is amended and restated by inserting “or the Amendment No. 1 Closing Date” after “Effective Date” where it appears therein.

(iv) Article V of the Existing Letter of Credit Agreement is amended to insert the following new Section 5.16 at the end thereof:

“Section 5.16 EEA Financial Institution. The Borrower is not an EEA Financial Institution.”

(d) *Sanctions.*

(i) Section 6.06 of the Existing Letter of Credit Agreement is amended by adding the following sentence at the end thereof:

“The proceeds of any Letter of Credit will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.”

(e) *Submission to Jurisdiction.*

(i) Section 9.07 of the Existing Letter of Credit Agreement is amended and restated by inserting “, borough of Manhattan,” immediately after “New York City” where it appears therein.

(f) *Acknowledgment and Consent to Bail-In of EEA Financial Institutions.*

(i) Article IX of the Existing Letter of Credit Agreement is amended by inserting the following sections at the end thereof:

“Section 9.16. Acknowledgment and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect

to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.”

(g) *Miscellaneous.* Article IX of the Existing Letter of Credit Agreement is amended by inserting the following sections at the end thereof:

“Section 9.17. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment, shall have been received by such Lender.”

“Section 9.18. Severability. Any provision of any Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.”

“Section 9.19. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.”

SECTION 3. *Full Force and Effect; Ratification.* Except as expressly modified herein, all of the terms and conditions of the Existing Letter of Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Existing Letter of Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

SECTION 4. *GOVERNING LAW.* THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 5. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were

upon the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or email shall be effective as delivery of a manually executed counterpart of this Amendment. The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to any document to be signed in connection with this Amendment and the transactions contemplated hereby shall be deemed to include electronic signatures, deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

SECTION 6. *Effectiveness.* This Amendment shall become effective as of the first date when each of the following conditions are met (the “Amendment Effective Date”):

- (a) the Administrative Agent shall have received from the Borrower, the Issuing Lenders and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof;
- (b) the Administrative Agent shall have received satisfactory opinions of counsel for the Borrower, dated the Amendment Effective Date;
- (c) the Administrative Agent shall have received a certificate dated the Amendment Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (i) on the Amendment Effective Date, before and after giving effect to this Amendment, no Default shall have occurred or be continuing, (ii) the representations and warranties contained in the Amended Letter of Credit Agreement are true and correct on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and (iii) no authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Amendment, the Amended Letter of Credit Agreement and the other Loan Documents to which it is a party except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Amendment Effective Date and shall be in full force and effect; *provided* that the Borrower may require additional approvals of the KPSC, TRA, VSCC and/or FERC in order to incur obligations in respect of the Letters of Credit to support issuances of bonds other than the Existing Pollution Control Bonds;
- (d) the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky and a certificate of the Secretary of the Commonwealth of the Commonwealth of Virginia, each dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Amendment Effective Date and certifying (A) that attached thereto is a true, correct and complete copies of (x) the Borrower’s articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and

the Secretary of the Commonwealth of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing this Amendment or any other document delivered in connection herewith;

- (e) all necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC, TRA, VSCC and any required approvals of the FERC, authorizing the Borrower to incur liabilities pursuant to the Amended Letter of Credit Agreement and the other Loan Documents in connection with the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; and
- (f) the Administrative Agent shall have received all costs, fees and expenses due to the Administrative Agent, the Issuing Lenders and the other Lenders.

SECTION 7. Representations and Warranties and Reaffirmations of the Borrower.

- (a) The Borrower hereby represents and warrants that (i) this Amendment and the Existing Letter of Credit Agreement as previously executed and as modified hereby constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms except to the extent limited by (x) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (y) any applicable public policy on enforceability of provisions relating to contribution and indemnification, and (ii) no Default or Event of Default has occurred and is continuing.
- (b) Upon the effectiveness of this Amendment and after giving effect hereto, the Borrower hereby reaffirms all covenants, representations and warranties made in the Amended Letter of Credit Agreement, and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the Amendment Effective Date, except that any such covenant, representation, or warranty that was made as of a specific date shall be considered reaffirmed only as of such date.

SECTION 8. Reference to the Effect on the Existing Letter of Credit Agreement.

- (a) Upon the effectiveness of Section 2 hereof, on and after the date hereof, each reference in the Existing Letter of Credit Agreement (including any reference therein to "this Letter of Credit Agreement," "this Agreement," "hereunder," "hereof," "herein" or words of

like import referring thereto) or in any other Loan Document shall mean and be a reference to the Amended Letter of Credit Agreement.

- (b) Upon satisfaction of the conditions set forth in Section 6 hereof and the execution hereof by the Borrower, the Issuing Lender, the Lenders and the Administrative Agent, this Amendment shall be binding upon all parties to the Existing Letter of Credit Agreement.

SECTION 9. *Miscellaneous*. This Amendment shall constitute a Loan Document for all purposes of the Amended Letter of Credit Agreement and the other Loan Documents. The provisions of this Amendment are deemed incorporated into the Amended Letter of Credit Agreement as if fully set forth therein. The Borrower shall pay all reasonable out-of-pocket costs and expenses of the Administrative Agent incurred in connection with the negotiation, preparation and execution of this Amendment and the transactions contemplated hereby. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

[Signature Pages to Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

KENTUCKY UTILITIES COMPANY,
as the Borrower

By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

Signature Page to Amendment No. 1 to Letter of Credit Agreement
Kentucky Utilities Company (2017)

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
NEW YORK BRANCH, as Administrative Agent,
Issuing Lender and Lender

By: /s/ Chi-Cheng Chen
Name: Chi-Cheng Chen
Title: Director

Signature Page to Amendment No. 1 to Letter of Credit Agreement
Kentucky Utilities Company (2017)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Six Months Ended June 30,		Years Ended December 31,			
	2017	2016	2015 (a)	2014 (a)	2013 (a)	2012 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 900	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728	\$ 1,406
Adjustment to reflect earnings from equity method investments on a cash basis (b)	1	(1)	(1)	—	—	34
	<u>901</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>	<u>1,440</u>
Total fixed charges as below	449	917	1,054	1,095	1,096	1,065
Less:						
Capitalized interest	2	4	11	11	11	6
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Interest expense and fixed charges related to discontinued operations	—	—	150	186	235	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>447</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>	<u>819</u>
Total earnings	<u>\$ 1,348</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>	<u>\$ 2,259</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 444	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058	\$ 1,019
Estimated interest component of operating rentals	5	17	16	22	38	41
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Total fixed charges (d)	<u>\$ 449</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>
Ratio of earnings to fixed charges	<u>3.0</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>3.0</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes other-than-temporary impairment loss of \$25 million in 2012.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(d) Interest on unrecognized tax benefits is not included in fixed charges.

(e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(Millions of Dollars)

	Six Months Ended June 30, 2017	Years Ended December 31,				
	2016	2015	2014	2013	2012	
Earnings, as defined:						
Income Before Income Taxes	\$ 251	\$ 552	\$ 416	\$ 423	\$ 317	\$ 204
Total fixed charges as below	74	141	139	131	117	107
Total earnings	<u>\$ 325</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>	<u>\$ 311</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 72	\$ 137	\$ 135	\$ 127	\$ 113	\$ 104
Estimated interest component of operating rentals	2	4	4	4	4	3
Total fixed charges (b)	<u>\$ 74</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 107</u>
Ratio of earnings to fixed charges	<u>4.4</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.9</u>
Preferred stock dividend requirements on a pre-tax basis	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6
Fixed charges, as above	74	141	139	131	117	107
Total fixed charges and preferred stock dividends	<u>\$ 74</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 113</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.4</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 306	\$ 686	\$ 603	\$ 553	\$ 551	\$ 331
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>307</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>	<u>364</u>
Total fixed charges as below	<u>112</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>	<u>157</u>
Total earnings	<u>\$ 419</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>	<u>\$ 521</u>
Fixed charges, as defined:						
Interest charges (b) (c)	\$ 107	\$ 214	\$ 181	\$ 167	\$ 145	\$ 151
Estimated interest component of operating rentals	5	9	8	6	6	6
Total fixed charges	<u>\$ 112</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>	<u>\$ 157</u>
Ratio of earnings to fixed charges	<u>3.7</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>	<u>3.3</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(c) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 156	\$ 329	\$ 299	\$ 272	\$ 257	\$ 192
Total fixed charges as below	38	76	61	51	36	44
Total earnings	<u>\$ 194</u>	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>	<u>\$ 236</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 36	\$ 71	\$ 57	\$ 49	\$ 34	\$ 42
Estimated interest component of operating rentals	2	5	4	2	2	2
Total fixed charges	<u>\$ 38</u>	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>	<u>\$ 44</u>
Ratio of earnings to fixed charges	<u>5.1</u>	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>	<u>5.4</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 192	\$ 428	\$ 374	\$ 355	\$ 360	\$ 215
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>193</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>	<u>248</u>
Total fixed charges as below	<u>50</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>	<u>72</u>
Total earnings	<u>\$ 243</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>	<u>\$ 320</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 48	\$ 96	\$ 82	\$ 77	\$ 70	\$ 69
Estimated interest component of operating rentals	2	4	4	3	3	3
Total fixed charges	<u>\$ 50</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>	<u>\$ 72</u>
Ratio of earnings to fixed charges	<u>4.9</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>	<u>4.4</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Morningstar[®] Document ResearchSM

FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: July 06, 2017 (period: June 29, 2017)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 29, 2017

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by a check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (§230.405) or Rule 12b-2 under the Exchange Act (§240.12b-2).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
 - LG&E and KU Energy LLC
 - Louisville Gas and Electric Company
 - Kentucky Utilities Company
-

Section 8 - Other Events

Item 8.01 Other Events

On June 29, 2017, the Kentucky Public Service Commission ("KPSC") issued a corrected order in the rate increase proceedings of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies"). The new order accepts certain rate calculation and other technical corrections, proposed by the Companies to the KPSC's prior order, dated June 22, 2017, in the matter.

The KPSC's corrected order provides for increases of \$57 million and \$52 million, respectively, in the annual revenue requirements associated with LG&E and KU base electricity rates and \$7 million in the annual revenue requirement associated with LG&E base gas rates. These corrected amounts represent increases of approximately \$0.8 million, \$1.1 million and \$0.3 million in the respective electricity and gas annual revenue requirements increase amounts granted in the original KPSC order.

The new rates became effective on July 1, 2017.

Statements in this report regarding future events and their timing, including the Companies' future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity or gas; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: July 6, 2017

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: November 01, 2017 (period: September 30, 2017)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No ___
PPL Electric Utilities Corporation	Yes <u>X</u>	No ___
LG&E and KU Energy LLC	Yes <u>X</u>	No ___
Louisville Gas and Electric Company	Yes <u>X</u>	No ___
Kentucky Utilities Company	Yes <u>X</u>	No ___

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No ___
PPL Electric Utilities Corporation	Yes <u>X</u>	No ___
LG&E and KU Energy LLC	Yes <u>X</u>	No ___
Louisville Gas and Electric Company	Yes <u>X</u>	No ___
Kentucky Utilities Company	Yes <u>X</u>	No ___

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	[X]	[]	[]	[]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]	[]
Kentucky Utilities Company	[]	[]	[X]	[]	[]

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes ___	No <u>X</u>
PPL Electric Utilities Corporation	Yes ___	No <u>X</u>
LG&E and KU Energy LLC	Yes ___	No <u>X</u>
Louisville Gas and Electric Company	Yes ___	No <u>X</u>
Kentucky Utilities Company	Yes ___	No <u>X</u>

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 688,464,316 shares outstanding at October 25, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.

This document is available free of charge at the Investors section of PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, a direct U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard.

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - PPL's at-the-market common stock offering program.

BSER - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - A non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - Earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LCIDA - Lehigh County Industrial Development Authority.

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

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NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

Performance Unit - A stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of total shareowner return over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions are based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

S&P - S&P Global Ratings, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

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Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2016 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of unrecorded commitments and liabilities, if any, of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

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New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 1,845	\$ 1,889	\$ 5,521	\$ 5,685
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	143	151	494	531
Other operation and maintenance	397	417	1,217	1,292
Depreciation	257	232	745	692
Taxes, other than income	69	76	214	229
Total Operating Expenses	1,068	1,103	3,246	3,351
Operating Income	777	786	2,275	2,334
Other Income (Expense) - net	(76)	49	(235)	284
Interest Expense	230	223	669	671
Income Before Income Taxes	471	612	1,371	1,947
Income Taxes	116	139	321	510
Net Income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.52	\$ 0.70	\$ 1.53	\$ 2.12
Diluted	\$ 0.51	\$ 0.69	\$ 1.53	\$ 2.11
Dividends Declared Per Share of Common Stock	\$ 0.3950	\$ 0.38	\$ 1.185	\$ 1.14
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	686,563	678,114	683,783	676,905
Diluted	688,746	680,348	686,081	679,969

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$0, (\$2), (\$1), (\$4)	(12)	(641)	195	(837)
Qualifying derivatives, net of tax of \$0, (\$16), \$7, (\$9)	1	62	(29)	57
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$2, \$4, \$9, \$3	(3)	(6)	(14)	(4)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$1, \$17, (\$6), \$15	—	(69)	24	(62)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial (gain) loss, net of tax of (\$10), (\$10), (\$28), (\$27)	34	31	97	94
Total other comprehensive income (loss)	20	(623)	275	(752)
Comprehensive income (loss)	\$ 375	\$ (150)	\$ 1,325	\$ 685

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 1,050	\$ 1,437
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	745	692
Amortization	72	54
Defined benefit plans - expense (income)	(69)	(29)
Deferred income taxes and investment tax credits	284	436
Unrealized (gains) losses on derivatives, and other hedging activities	194	107
Stock-based compensation expense	30	23
Other	(8)	(12)
Change in current assets and current liabilities		
Accounts receivable	25	(29)
Accounts payable	(93)	(40)
Unbilled revenues	81	32
Fuel, materials and supplies	35	8
Prepayments	(37)	(34)
Taxes payable	6	40
Regulatory assets and liabilities, net	(3)	(32)
Accrued interest	49	32
Other current liabilities	(53)	(48)
Other	5	(5)
Other operating activities		
Defined benefit plans - funding	(558)	(345)
Other assets	4	18
Other liabilities	(5)	(75)
Net cash provided by operating activities	<u>1,754</u>	<u>2,230</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,152)	(2,073)
Expenditures for intangible assets	(25)	(23)
Other investing activities	13	30
Net cash used in investing activities	<u>(2,164)</u>	<u>(2,066)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	1,088	1,241
Retirement of long-term debt	(60)	(905)
Settlement of cross-currency swaps	—	46
Issuance of common stock	275	133
Payment of common stock dividends	(800)	(772)
Net increase (decrease) in short-term debt	269	(268)
Other financing activities	(34)	(33)
Net cash provided by (used in) financing activities	<u>738</u>	<u>(558)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	7	(26)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>335</u>	<u>(420)</u>
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	<u>\$ 676</u>	<u>\$ 416</u>

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 373	\$ 293
Accrued expenditures for intangible assets at September 30,	\$ 60	\$ 104

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 676	\$ 341
Accounts receivable (less reserve: 2017, \$52; 2016, \$54)		
Customer	617	666
Other	96	46
Unbilled revenues	405	480
Fuel, materials and supplies	323	356
Prepayments	101	63
Price risk management assets	57	63
Other current assets	56	52
Total Current Assets	<u>2,331</u>	<u>2,067</u>
Property, Plant and Equipment		
Regulated utility plant	36,678	34,674
Less: accumulated depreciation - regulated utility plant	6,624	6,013
Regulated utility plant, net	<u>30,054</u>	<u>28,661</u>
Non-regulated property, plant and equipment	422	413
Less: accumulated depreciation - non-regulated property, plant and equipment	154	134
Non-regulated property, plant and equipment, net	268	279
Construction work in progress	1,494	1,134
Property, Plant and Equipment, net	<u>31,816</u>	<u>30,074</u>
Other Noncurrent Assets		
Regulatory assets	1,869	1,918
Goodwill	3,134	3,060
Other intangibles	666	700
Pension benefit asset	532	9
Price risk management assets	267	336
Other noncurrent assets	143	151
Total Other Noncurrent Assets	<u>6,611</u>	<u>6,174</u>
Total Assets	<u>\$ 40,758</u>	<u>\$ 38,315</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,211	\$ 923
Long-term debt due within one year	448	518
Accounts payable	838	820
Taxes	110	101
Interest	322	270
Dividends	272	259
Customer deposits	291	276
Regulatory liabilities	87	101
Other current liabilities	570	569
Total Current Liabilities	<u>4,149</u>	<u>3,837</u>
Long-term Debt	<u>19,110</u>	<u>17,808</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,224	3,889
Investment tax credits	130	132
Accrued pension obligations	796	1,001
Asset retirement obligations	312	428
Regulatory liabilities	873	899
Other deferred credits and noncurrent liabilities	472	422
Total Deferred Credits and Other Noncurrent Liabilities	<u>6,807</u>	<u>6,771</u>
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,122	9,841
Earnings reinvested	4,066	3,829
Accumulated other comprehensive loss	(3,503)	(3,778)
Total Equity	<u>10,692</u>	<u>9,899</u>
Total Liabilities and Equity	<u>\$ 40,758</u>	<u>\$ 38,315</u>

(a) 1,560,000 shares authorized; 688,133 and 679,731 shares issued and outstanding at September 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	8,402		303			303
Stock-based compensation			(22)			(22)
Net income				1,050		1,050
Dividends and dividend equivalents				(813)		(813)
Other comprehensive income (loss)					275	275
September 30, 2017	<u>688,133</u>	<u>\$ 7</u>	<u>\$ 10,122</u>	<u>\$ 4,066</u>	<u>\$ (3,503)</u>	<u>\$ 10,692</u>
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	5,411		168			168
Stock-based compensation			(31)			(31)
Net income				1,437		1,437
Dividends and dividend equivalents				(773)		(773)
Other comprehensive income (loss)					(752)	(752)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
September 30, 2016	<u>679,268</u>	<u>\$ 7</u>	<u>\$ 9,824</u>	<u>\$ 3,624</u>	<u>\$ (3,480)</u>	<u>\$ 9,975</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 547	\$ 539	\$ 1,620	\$ 1,619
Operating Expenses				
Operation				
Energy purchases	121	129	374	414
Other operation and maintenance	133	144	435	431
Depreciation	77	64	228	185
Taxes, other than income	27	26	79	79
Total Operating Expenses	<u>358</u>	<u>363</u>	<u>1,116</u>	<u>1,109</u>
Operating Income	189	176	504	510
Other Income (Expense) - net	4	4	8	12
Interest Income from Affiliate	2	—	3	—
Interest Expense	<u>36</u>	<u>32</u>	<u>105</u>	<u>97</u>
Income Before Income Taxes	159	148	410	425
Income Taxes	<u>64</u>	<u>58</u>	<u>159</u>	<u>162</u>
Net Income (a)	<u>\$ 95</u>	<u>\$ 90</u>	<u>\$ 251</u>	<u>\$ 263</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 251	\$ 263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	228	185
Amortization	25	19
Defined benefit plans - expense	10	9
Deferred income taxes and investment tax credits	129	151
Other	(8)	(14)
Change in current assets and current liabilities		
Accounts receivable	7	(6)
Accounts payable	(38)	(1)
Unbilled revenues	30	10
Prepayments	(31)	29
Regulatory assets and liabilities, net	—	(41)
Taxes payable	10	(6)
Other	(9)	(13)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	(2)	15
Other liabilities	(3)	(5)
Net cash provided by operating activities	<u>575</u>	<u>595</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(851)	(739)
Expenditures for intangible assets	(7)	(3)
Net increase in notes receivable from affiliate	(2)	—
Other investing activities	2	2
Net cash used in investing activities	<u>(858)</u>	<u>(740)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	470	224
Retirement of long-term debt	—	(224)
Contributions from parent	575	200
Payment of common stock dividends to parent	(231)	(193)
Net increase (decrease) in short-term debt	(295)	130
Other financing activities	(6)	(3)
Net cash provided by financing activities	<u>513</u>	<u>134</u>
Net Increase (Decrease) in Cash and Cash Equivalents	230	(11)
Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	<u>\$ 243</u>	<u>\$ 36</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	\$ 190	\$ 166

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 243	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$28)		
Customer	275	272
Other	10	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	2	—
Unbilled revenues	84	114
Materials and supplies	31	32
Prepayments	40	9
Regulatory assets	14	19
Other current assets	11	8
Total Current Assets	<u>711</u>	<u>488</u>
Property, Plant and Equipment		
Regulated utility plant	10,449	9,654
Less: accumulated depreciation - regulated utility plant	2,880	2,714
Regulated utility plant, net	<u>7,569</u>	<u>6,940</u>
Construction work in progress	699	641
Property, Plant and Equipment, net	<u>8,268</u>	<u>7,581</u>
Other Noncurrent Assets		
Regulatory assets	1,073	1,094
Intangibles	256	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	<u>1,344</u>	<u>1,357</u>
Total Assets	<u>\$ 10,323</u>	<u>\$ 9,426</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 295
Long-term debt due within one year	—	224
Accounts payable	397	367
Accounts payable to affiliates	38	42
Taxes	22	12
Interest	38	34
Regulatory liabilities	72	83
Other current liabilities	90	101
Total Current Liabilities	657	1,158
Long-term Debt	3,298	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,036	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	89	90
Total Deferred Credits and Other Noncurrent Liabilities	2,382	2,270
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154
Earnings reinvested	893	873
Total Equity	3,986	3,391
Total Liabilities and Equity	\$ 10,323	\$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				251	251
Capital contributions from PPL			575		575
Dividends declared on common stock				(231)	(231)
September 30, 2017	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,729</u>	<u>\$ 893</u>	<u>\$ 3,986</u>
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				263	263
Capital contributions from PPL			200		200
Dividends declared on common stock				(193)	(193)
September 30, 2016	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,134</u>	<u>\$ 891</u>	<u>\$ 3,389</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 818	\$ 835	\$ 2,350	\$ 2,382
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	22	24	120	118
Other operation and maintenance	199	197	598	603
Depreciation	114	102	324	301
Taxes, other than income	17	16	49	46
Total Operating Expenses	<u>554</u>	<u>566</u>	<u>1,667</u>	<u>1,675</u>
Operating Income	264	269	683	707
Other Income (Expense) - net	1	(3)	(5)	(9)
Interest Expense	49	50	148	147
Interest Expense with Affiliate	<u>5</u>	<u>4</u>	<u>13</u>	<u>12</u>
Income Before Income Taxes	211	212	517	539
Income Taxes	<u>79</u>	<u>79</u>	<u>195</u>	<u>202</u>
Net Income	<u>\$ 132</u>	<u>\$ 133</u>	<u>\$ 322</u>	<u>\$ 337</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 132	\$ 133	\$ 322	\$ 337
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$7, (\$1)	(1)	—	(12)	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial loss, net of tax of \$0, \$0, (\$2), (\$1)	1	1	3	3
Total other comprehensive income (loss)	—	1	(7)	4
Comprehensive income	\$ 132	\$ 134	\$ 315	\$ 341

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 322	\$ 337
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	324	301
Amortization	19	21
Defined benefit plans - expense	19	20
Deferred income taxes and investment tax credits	173	212
Other	1	—
Change in current assets and current liabilities		
Accounts receivable	18	(43)
Accounts payable	(30)	7
Accounts payable to affiliates	3	4
Unbilled revenues	19	6
Fuel, materials and supplies	34	7
Taxes payable	13	—
Accrued interest	41	42
Other	(1)	(4)
Other operating activities		
Defined benefit plans - funding	(32)	(82)
Expenditures for asset retirement obligations	(22)	(15)
Other assets	5	1
Other liabilities	14	2
Net cash provided by operating activities	<u>920</u>	<u>816</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(579)	(600)
Other investing activities	4	1
Net cash used in investing activities	<u>(575)</u>	<u>(599)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4)	84
Issuance of long-term debt	60	221
Retirement of long-term debt	(60)	(221)
Net increase (decrease) in short-term debt	5	(130)
Debt issuance and credit facility costs	(3)	(3)
Distributions to member	(316)	(224)
Contributions from member	—	37
Net cash used in financing activities	<u>(318)</u>	<u>(236)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	27	(19)
Cash and Cash Equivalents at Beginning of Period	<u>13</u>	<u>30</u>
Cash and Cash Equivalents at End of Period	<u>\$ 40</u>	<u>\$ 11</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 142	\$ 86
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 40	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	215	235
Other	43	17
Accounts receivable from affiliates	1	—
Unbilled revenues	151	170
Fuel, materials and supplies	264	297
Prepayments	27	24
Regulatory assets	20	20
Other current assets	8	4
Total Current Assets	769	780
Property, Plant and Equipment		
Regulated utility plant	12,906	12,746
Less: accumulated depreciation - regulated utility plant	1,685	1,465
Regulated utility plant, net	11,221	11,281
Construction work in progress	574	317
Property, Plant and Equipment, net	11,795	11,598
Other Noncurrent Assets		
Regulatory assets	796	824
Goodwill	996	996
Other intangibles	88	95
Other noncurrent assets	71	78
Total Other Noncurrent Assets	1,951	1,993
Total Assets	\$ 14,515	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	283	251
Accounts payable to affiliates	8	6
Customer deposits	57	56
Taxes	52	39
Price risk management liabilities	5	4
Regulatory liabilities	15	18
Interest	73	32
Asset retirement obligations	94	60
Other current liabilities	125	119
Total Current Liabilities	1,159	1,127
Long-term Debt		
Long-term debt	4,570	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,970	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,909	1,735
Investment tax credits	130	132
Accrued pension obligations	345	350
Asset retirement obligations	261	373
Regulatory liabilities	873	899
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	178	190
Total Deferred Credits and Other Noncurrent Liabilities	3,720	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,666	4,667
Total Liabilities and Equity	\$ 14,515	\$ 14,371

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2016	\$ 4,667
Net income	322
Distributions to member	(316)
Other comprehensive income	(7)
September 30, 2017	\$ 4,666
December 31, 2015	\$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224)
Other comprehensive income	4
September 30, 2016	\$ 4,671

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 361	\$ 366	\$ 1,055	\$ 1,058
Electric revenue from affiliate	2	2	23	19
Total Operating Revenues	363	368	1,078	1,077
Operating Expenses				
Operation				
Fuel	76	86	225	233
Energy purchases	18	19	107	104
Energy purchases from affiliate	3	5	8	10
Other operation and maintenance	89	85	262	264
Depreciation	47	43	136	126
Taxes, other than income	8	9	25	24
Total Operating Expenses	241	247	763	761
Operating Income	122	121	315	316
Other Income (Expense) - net	(1)	(1)	(2)	(6)
Interest Expense	17	18	53	53
Income Before Income Taxes	104	102	260	257
Income Taxes	39	39	99	98
Net Income (a)	\$ 65	\$ 63	\$ 161	\$ 159

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 161	\$ 159
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	136	126
Amortization	11	10
Defined benefit plans - expense	5	6
Deferred income taxes and investment tax credits	96	117
Change in current assets and current liabilities		
Accounts receivable	12	(17)
Accounts receivable from affiliates	6	(11)
Accounts payable	(12)	24
Accounts payable to affiliates	(10)	(6)
Unbilled revenues	11	10
Fuel, materials and supplies	6	11
Taxes payable	(15)	—
Accrued interest	12	13
Other	6	1
Other operating activities		
Defined benefit plans - funding	(3)	(45)
Expenditures for asset retirement obligations	(13)	(11)
Other assets	5	(3)
Other liabilities	4	(1)
Net cash provided by operating activities	<u>418</u>	<u>383</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(293)	(343)
Net cash used in investing activities	<u>(293)</u>	<u>(343)</u>
Cash Flows from Financing Activities		
Net increase in notes payable with affiliates	10	—
Issuance of long-term debt	60	125
Retirement of long-term debt	(60)	(125)
Net increase (decrease) in short-term debt	21	(14)
Debt issuance and credit facility costs	(2)	(1)
Payment of common stock dividends to parent	(150)	(87)
Contributions from parent	—	47
Net cash used in financing activities	<u>(121)</u>	<u>(55)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>4</u>	<u>(15)</u>
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	<u>\$ 9</u>	<u>\$ 4</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 83	\$ 46
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	96	109
Other	14	11
Accounts receivable from affiliates	22	28
Unbilled revenues	64	75
Fuel, materials and supplies	137	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	2	1
Total Current Assets	370	393
Property, Plant and Equipment		
Regulated utility plant	5,447	5,357
Less: accumulated depreciation - regulated utility plant	575	498
Regulated utility plant, net	4,872	4,859
Construction work in progress	279	133
Property, Plant and Equipment, net	5,151	4,992
Other Noncurrent Assets		
Regulatory assets	413	450
Goodwill	389	389
Other intangibles	54	59
Other noncurrent assets	13	17
Total Other Noncurrent Assets	869	915
Total Assets	\$ 6,390	\$ 6,300

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 169
Long-term debt due within one year	98	194
Notes payable with affiliate	10	—
Accounts payable	166	148
Accounts payable to affiliates	17	26
Customer deposits	27	27
Taxes	25	40
Price risk management liabilities	5	4
Regulatory liabilities	5	5
Interest	23	11
Asset retirement obligations	33	41
Other current liabilities	46	36
Total Current Liabilities	645	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,073	974
Investment tax credits	36	36
Accrued pension obligations	47	53
Asset retirement obligations	85	104
Regulatory liabilities	388	419
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	84	87
Total Deferred Credits and Other Noncurrent Liabilities	1,737	1,700
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	381	370
Total Equity	2,487	2,476
Total Liabilities and Equity	\$ 6,390	\$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				161	161
Cash dividends declared on common stock				(150)	(150)
September 30, 2017	21,294	\$ 424	\$ 1,682	\$ 381	\$ 2,487
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				159	159
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(87)	(87)
September 30, 2016	21,294	\$ 424	\$ 1,658	\$ 367	\$ 2,449

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 457	\$ 469	\$ 1,295	\$ 1,324
Electric revenue from affiliate	3	5	8	10
Total Operating Revenues	460	474	1,303	1,334
Operating Expenses				
Operation				
Fuel	126	141	351	374
Energy purchases	4	5	13	14
Energy purchases from affiliate	2	2	23	19
Other operation and maintenance	104	107	313	320
Depreciation	67	59	188	175
Taxes, other than income	9	7	24	22
Total Operating Expenses	312	321	912	924
Operating Income	148	153	391	410
Other Income (Expense) - net	—	(3)	(3)	(4)
Interest Expense	24	24	72	71
Income Before Income Taxes	124	126	316	335
Income Taxes	47	48	120	128
Net Income (a)	\$ 77	\$ 78	\$ 196	\$ 207

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 196	\$ 207
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	188	175
Amortization	7	10
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	116	122
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	6	(24)
Accounts receivable from affiliates	(1)	—
Accounts payable	(6)	(11)
Accounts payable to affiliates	(16)	2
Unbilled revenues	8	(4)
Fuel, materials and supplies	28	(4)
Taxes payable	(21)	—
Accrued interest	22	22
Other	(6)	2
Other operating activities		
Defined benefit plans - funding	(22)	(19)
Expenditures for asset retirement obligations	(9)	(4)
Other assets	—	(4)
Other liabilities	8	(4)
Net cash provided by operating activities	<u>501</u>	<u>469</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(283)	(255)
Net increase in notes receivable with affiliates	(10)	—
Other investing activities	4	1
Net cash used in investing activities	<u>(289)</u>	<u>(254)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	—	96
Retirement of long-term debt	—	(96)
Net decrease in short-term debt	(16)	(41)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(171)	(197)
Contributions from parent	—	20
Net cash used in financing activities	<u>(188)</u>	<u>(219)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24	(4)
Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	<u>\$ 31</u>	<u>\$ 7</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 58	\$ 40
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 31	\$ 7
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	119	126
Other	28	5
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	10	—
Unbilled revenues	87	95
Fuel, materials and supplies	127	154
Prepayments	14	12
Regulatory assets	9	11
Other current assets	6	3
Total Current Assets	432	413
Property, Plant and Equipment		
Regulated utility plant	7,452	7,382
Less: accumulated depreciation - regulated utility plant	1,110	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	293	181
Property, Plant and Equipment, net	6,635	6,598
Other Noncurrent Assets		
Regulatory assets	383	374
Goodwill	607	607
Other intangibles	34	36
Other noncurrent assets	55	57
Total Other Noncurrent Assets	1,079	1,074
Total Assets	\$ 8,146	\$ 8,085

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 16
Accounts payable	105	78
Accounts payable to affiliates	42	56
Customer deposits	30	29
Taxes	24	45
Regulatory liabilities	10	13
Interest	38	16
Asset retirement obligations	61	19
Other current liabilities	35	36
Total Current Liabilities	345	308
Long-term Debt	2,328	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,289	1,170
Investment tax credits	94	96
Accrued pension obligations	37	62
Asset retirement obligations	176	269
Regulatory liabilities	485	480
Other deferred credits and noncurrent liabilities	43	50
Total Deferred Credits and Other Noncurrent Liabilities	2,124	2,127
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	425	400
Total Equity	3,349	3,323
Total Liabilities and Equity	\$ 8,146	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2017 and December 31, 2016.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				196		196
Cash dividends declared on common stock				(171)		(171)
Other comprehensive income					1	1
September 30, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 425</u>	<u>\$ —</u>	<u>\$ 3,349</u>
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Capital contributions from LKE			20			20
Net income				207		207
Cash dividends declared on common stock				(197)		(197)
Other comprehensive income (loss)					(1)	(1)
September 30, 2016	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 393</u>	<u>\$ (1)</u>	<u>\$ 3,316</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2016 is derived from that Registrant's 2016 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2016 Form 10-K. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(PPL and PPL Electric)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and nine months ended September 30, 2017, PPL Electric purchased \$324 million and \$968 million of accounts receivable from alternative energy suppliers. During the three and nine months ended September 30, 2016, PPL Electric purchased \$365 million and \$1.0 billion of accounts receivable from alternative electricity suppliers.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are as follows:

	Three Months		Nine Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 477	\$ 515	\$ 1,547	\$ 1,673
Kentucky Regulated	818	835	2,350	2,382
Pennsylvania Regulated	547	539	1,620	1,619
Corporate and Other	3	—	4	11
Total	\$ 1,845	\$ 1,889	\$ 5,521	\$ 5,685
Net Income				
U.K. Regulated (a)	\$ 126	\$ 281	\$ 560	\$ 915
Kentucky Regulated	125	126	299	314
Pennsylvania Regulated	95	91	251	263
Corporate and Other	9	(25)	(60)	(55)
Total	\$ 355	\$ 473	\$ 1,050	\$ 1,437

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	September 30, 2017	December 31, 2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	\$ 16,052	\$ 14,537
Kentucky Regulated	14,181	14,037
Pennsylvania Regulated	10,323	9,426
Corporate and Other (b)	202	315
Total	\$ 40,758	\$ 38,315

(a) Includes \$11.7 billion and \$10.8 billion of net PP&E as of September 30, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Less amounts allocated to participating securities	1	1	2	4
Net income available to PPL common shareowners - Basic and Diluted	\$ 354	\$ 472	\$ 1,048	\$ 1,433
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	686,563	678,114	683,783	676,905
Add incremental non-participating securities:				
Share-based payment awards	2,183	2,234	2,298	3,064
Weighted-average shares - Diluted EPS	688,746	680,348	686,081	679,969

Basic EPS

Net Income available to PPL common shareowners	\$ 0.52	\$ 0.70	\$ 1.53	\$ 2.12
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Diluted EPS

Net Income available to PPL common shareowners	\$ 0.51	\$ 0.69	\$ 1.53	\$ 2.11
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For the periods ended September 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	256	248	1,707	3,168
DRIP	355	761	1,169	1,533

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under the ATM Program.

For the periods ended September 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock options	696	696	696	696
Performance units	—	316	—	210

5. Income Taxes

Reconciliations of income taxes for the periods ended September 30 are as follows.

(PPL)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 165	\$ 214	\$ 480	\$ 681
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	13	37	37
Valuation allowance adjustments	4	4	9	13
Impact of lower U.K. income tax rates	(45)	(37)	(133)	(136)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(8)	(1)	(24)	(3)
Impact of the U.K. Finance Acts (b)	(3)	(42)	(12)	(42)
Depreciation not normalized	(2)	—	(7)	(6)
Interest benefit on U.K. financing entities	(4)	(4)	(12)	(13)
Stock-based compensation	—	(1)	(7)	(12)
Other	(5)	(7)	(10)	(9)
Total increase (decrease)	(49)	(75)	(159)	(171)
Total income taxes	\$ 116	\$ 139	\$ 321	\$ 510

- (a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

(PPL Electric)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 56	\$ 52	\$ 144	\$ 149
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	9	26	27
Depreciation not normalized	(1)	(2)	(5)	(5)
Stock-based compensation	—	—	(5)	(7)
Other	—	(1)	(1)	(2)
Total increase (decrease)	8	6	15	13
Total income taxes	\$ 64	\$ 58	\$ 159	\$ 162

(LKE)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 74	\$ 74	\$ 181	\$ 189
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	8	19	20
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Stock-based compensation	—	(1)	(1)	(2)
Other	(2)	(1)	(2)	(3)
Total increase (decrease)	5	5	14	13
Total income taxes	\$ 79	\$ 79	\$ 195	\$ 202

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(LG&E)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 36	\$ 36	\$ 91	\$ 90
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	4	10	10
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	3	3	8	8
Total income taxes	\$ 39	\$ 39	\$ 99	\$ 98

(KU)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 43	\$ 44	\$ 111	\$ 117
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	4	4	9	11
Total income taxes	\$ 47	\$ 48	\$ 120	\$ 128

6. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	\$ 4	\$ 6	\$ —	\$ —
Generation formula rate	8	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	6	3	—	—
Smart meter rider	12	6	12	6
Storm costs	1	5	1	5
Other	3	1	1	1
Total current regulatory assets (a)	\$ 34	\$ 39	\$ 14	\$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 908	\$ 947	\$ 530	\$ 549
Taxes recoverable through future rates	347	340	347	340
Storm costs	37	57	—	9
Unamortized loss on debt	55	61	30	36
Interest rate swaps	29	31	—	—
Terminated interest rate swaps	93	98	—	—
Accumulated cost of removal of utility plant	166	159	166	159
AROs	224	211	—	—
Other	10	14	—	1
Total noncurrent regulatory assets	\$ 1,869	\$ 1,918	\$ 1,073	\$ 1,094

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	PPL		PPL Electric	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:				
Generation supply charge	\$ 29	\$ 23	\$ 29	\$ 23
Transmission service charge	6	—	6	—
Universal service rider	19	14	19	14
Transmission formula rate	4	15	4	15
Fuel adjustment clause	11	11	—	—
Act 129 compliance rider	7	17	7	17
Storm damage expense	7	13	7	13
Other	4	8	—	1
Total current regulatory liabilities	\$ 87	\$ 101	\$ 72	\$ 83

Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ —	\$ —
Power purchase agreement - OVEC (b)	69	75	—	—
Net deferred tax assets	21	23	—	—
Defined benefit plans	27	23	—	—
Terminated interest rate swaps	74	78	—	—
Other	4	—	—	—
Total noncurrent regulatory liabilities	\$ 873	\$ 899	\$ —	\$ —

	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	\$ 4	\$ 6	\$ 4	\$ 6	\$ —	\$ —
Generation formula rate	8	11	—	—	8	11
Gas supply clause	6	3	6	3	—	—
Other	2	—	1	—	1	—
Total current regulatory assets	\$ 20	\$ 20	\$ 11	\$ 9	\$ 9	\$ 11

Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 378	\$ 398	\$ 235	\$ 246	\$ 143	\$ 152
Storm costs	37	48	20	26	17	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	29	31	29	31	—	—
Terminated interest rate swaps	93	98	54	57	39	41
AROs	224	211	57	70	167	141
Plant retirement costs	2	4	—	—	2	4
Other	8	9	2	4	6	5
Total noncurrent regulatory assets	\$ 796	\$ 824	\$ 413	\$ 450	\$ 383	\$ 374

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	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:						
Demand side management	\$ —	\$ 3	\$ —	\$ 2	\$ —	\$ 1
Fuel adjustment clause	11	11	3	2	8	9
Other	4	4	2	1	2	3
Total current regulatory liabilities	\$ 15	\$ 18	\$ 5	\$ 5	\$ 10	\$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ 281	\$ 305	\$ 397	\$ 395
Power purchase agreement - OVEC (b)	69	75	48	52	21	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	4	—	1	—	3	—
Total noncurrent regulatory liabilities	\$ 873	\$ 899	\$ 388	\$ 419	\$ 485	\$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of \$52 million, LG&E base electricity rates of \$57 million and LG&E base gas rates of \$7 million, and incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% at LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

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Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee will revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. On September 28, 2017, oral arguments were heard by the KPSC and a final order is expected in 2017. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	September 30, 2017					December 31, 2016		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 155	£ —	£ 54	£ 160	£ —	
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—	
WPD (South West)								
Syndicated Credit Facility (c)	July 2021	245	—	—	245	110	—	
WPD (East Midlands)								
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—	
WPD (West Midlands)								
Syndicated Credit Facility	July 2021	300	—	—	300	—	—	
Uncommitted Credit Facilities (e)		100	70	4	26	60	4	
Total U.K. Credit Facilities (f)		£ 1,385	£ 571	£ 4	£ 809	£ 339	£ 4	

	Expiration Date	September 30, 2017				December 31, 2016		
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2022	\$ 950	\$ —	\$ 285	\$ 665	\$ —	\$ 20	
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility	Mar. 2018	150	—	18	132	—	17	
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$ —	\$ 303	\$ 1,097	\$ —	\$ 37	
PPL Electric								
Syndicated Credit Facility	Jan. 2022	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 296	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2022	\$ 500	\$ —	\$ 190	\$ 310	\$ —	\$ 169	
KU								
Syndicated Credit Facility	Jan. 2022	\$ 400	\$ —	\$ —	\$ 400	\$ —	\$ 16	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 198	\$ 400	\$ —	\$ 214	

- (a) The amounts borrowed at September 30, 2017 and December 31, 2016 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.06% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed.
- (b) The amount borrowed at September 30, 2017 was a GBP-denominated borrowing which equated to \$296 million and bore interest at 1.50%.
- (c) The amount borrowed at December 31, 2016 was a GBP-denominated borrowing which equated to \$137 million and bore interest at 0.66%.
- (d) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$150 million and \$11 million and bore interest at 0.65% and 0.66%.
- (e) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$90 million and \$75 million and bore interest at 1.29% and 1.26%.
- (f) At September 30, 2017, the unused capacity under the U.K. credit facilities was \$1.0 billion.

(PPL, LKE and LG&E)

In October 2017, LG&E entered into a \$200 million term loan credit facility expiring in 2019. On October 26, 2017, LG&E borrowed \$100 million under this facility bearing interest of 1.74%. The proceeds will be used to repay short-term debt and for general corporate purposes.

(All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

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	September 30, 2017				December 31, 2016	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.41%	\$ 1,000	\$ 285	\$ 715	1.10%	\$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.38%	350	190	160	0.94%	169
KU		350	—	350	0.87%	16
Total		\$ 2,350	\$ 475	\$ 1,875		\$ 500

(PPL Electric, LKE, LG&E and KU)

See Note 10 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In September 2017, PPL Capital Funding issued \$500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of \$490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

In August 2017, the LCIDA remarketed \$108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed \$116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued

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on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended September 30, PPL issued the following:

	Three Months		Nine Months	
	2017	2016	2017	2016
Number of shares (in thousands)	2,049	710	5,526	710
Average share price	\$ 39.04	\$ 35.23	\$ 38.49	\$ 35.23
Net Proceeds	\$ 79	\$ 25	\$ 211	\$ 25

Distributions

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and LG&E for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2017	2016	2017	2016	2017	2016	2017	2016
PPL								
Service cost	\$ 17	\$ 16	\$ 20	\$ 17	\$ 49	\$ 49	\$ 57	\$ 53
Interest cost	42	44	45	58	126	131	132	182
Expected return on plan assets	(58)	(57)	(130)	(124)	(173)	(171)	(382)	(389)
Amortization of:								
Prior service cost	2	2	—	—	7	6	—	—
Actuarial loss	18	12	36	34	52	37	107	107
Net periodic defined benefit costs (credits) before settlements and special termination benefits	21	17	(29)	(15)	61	52	(86)	(47)
Settlements (a)	7	3	—	—	7	3	—	—
Special termination benefits (b)	—	—	—	—	1	—	—	—
Net periodic defined benefit costs (credits)	\$ 28	\$ 20	\$ (29)	\$ (15)	\$ 69	\$ 55	\$ (86)	\$ (47)

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- (a) 2017 includes settlement charges of \$5 million from the LG&E qualified pension plan and \$2 million from the PPL non-qualified pension plan and 2016 includes a settlement charge of \$3 million from the PPL non-qualified pension plan. These settlements resulted from lump sum payments that exceeded service cost and interest cost components of net periodic pension cost for the year.
- (b) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Nine Months	
	2017	2016	2017	2016
LKE				
Service cost	\$ 6	\$ 6	\$ 18	\$ 18
Interest cost	17	18	51	53
Expected return on plan assets	(23)	(23)	(69)	(68)
Amortization of:				
Prior service cost	2	2	6	6
Actuarial loss (a)	8	5	23	15
Net periodic defined benefit costs before settlements	10	8	29	24
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	\$ 15	\$ 8	\$ 34	\$ 24

LG&E				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	3	4	9	11
Expected return on plan assets	(5)	(5)	(16)	(15)
Amortization of:				
Prior service cost	1	1	3	3
Actuarial loss (a)	3	2	7	5
Net periodic defined benefit costs before settlements	2	2	4	5
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	\$ 7	\$ 2	\$ 9	\$ 5

- (a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$3 million and \$8 million for the three and nine months ended September 30, 2017 and \$4 million for the nine months ended September 30, 2016. The difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million and \$3 million for the three and nine months ended September 30, 2017 and \$1 million for the three months ended September 30, 2016. These differences are recorded as regulatory assets.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2017	2016	2017	2016
PPL				
Service cost	\$ 2	\$ 2	\$ 6	\$ 6
Interest cost	5	6	17	19
Expected return on plan assets	(6)	(6)	(17)	(17)
Amortization of prior service cost	—	—	(1)	—
Amortization of actuarial loss	1	1	1	1
Net periodic defined benefit costs	\$ 2	\$ 3	\$ 6	\$ 9

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2017	2016	2017	2016
LKE				
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	2	2	6	7
Expected return on plan assets	(2)	(2)	(5)	(5)
Amortization of prior service cost	1	1	1	2
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 7</u>

(PPL Electric, LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 10 for more information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric	\$ 6	\$ 6	\$ 19	\$ 17
LG&E	3	2	8	7
KU	2	2	7	8

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the nine months ended September 30, 2017, WPD contributed \$485 million to its U.K. pension plans. These contributions fund all of 2017 contributions and a portion of 2018 contributions. WPD does not expect to make additional contributions in 2017.

9. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

Cane Run Environmental Claims *(PPL, LKE and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values

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for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E regarding the state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

E.W. Brown Environmental Claims (PPL, LKE and KU)

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs seek injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act violations, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also seek assessment of civil penalties and an award of litigation costs and attorney fees. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a "special waste" landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit which were subsequently dismissed by agreed order entered in August 2017. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws.

Regulatory Issues (All Registrants)

See Note 6 for information on regulatory matters related to utility rate regulation.

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Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation.

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Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

Ozone

The EPA issued the current ozone standard in October 2015. Under the Clean Air Act, the states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment demonstrations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. While implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. While PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

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Additionally, in March 2017, the President issued an Executive Order (the March 2017 Executive Order) directing the EPA to review proposed and final rules relating to GHG reductions for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

As further described below, in 2015 the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules.

The future of these rules is uncertain. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states, industry groups and individual companies, including LKE. The D.C. Circuit has temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted. In addition, the President's March 2017 Executive Order requires the EPA to review the rules for new plants and existing power plants and suspend, revise or rescind them as appropriate. In October 2017, the EPA proposed to rescind the rule and may seek comment on a possible replacement rule.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable under all operating modes, such as frequent start-ups and shutdowns. The preclusion of new coal-fired plants could have a significant industry-wide impact.

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan ultimately remains in place in its current form, and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

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Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. In January 2017, Kentucky issued a state rule, effective May 2017, aimed at reflecting the requirements of the federal rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in state court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. PPL, LKE, LG&E and KU cannot predict the outcome of the litigation, but anticipate continued operation under the former program in the event that the new rule is struck down.

LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 in the Registrants' 2016 Form 10-K for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 15 below and Note 19 in the Registrants' 2016 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

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ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

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At September 30, 2017 and December 31, 2016, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 53 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

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(All Registrants)

The table below details guarantees provided as of September 30, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2017 was \$21 million for PPL and \$16 million for LKE. The total recorded liability at December 31, 2016 was \$22 million for PPL and \$17 million for LKE. See footnote (e) below for information regarding a settlement in principle for certain LKE indemnifications. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at September 30, 2017	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	95 (c)	
<u>PPL Electric</u>		
Guarantee of inventory value	17 (d)	2018
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (e)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits. In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnifications in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have conducted certain settlement discussions and reached a settlement in principle to resolve all claims for an aggregate amount within LKE's recorded liability, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

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- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$118 million at September 30, 2017, consisting of LG&E's share of \$82 million and KU's share of \$36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

10. Related Party Transactions

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other, as applicable, with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended September 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric from PPL Services	\$ 43	\$ 33	\$ 138	\$ 98
LKE from PPL Services	4	4	15	13
PPL Electric from PPL EU Services	15	17	48	50
LG&E from LKS	38	40	120	128
KU from LKS	43	46	134	151

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overhead costs associated with union and hourly employees performing work for the other company, charges related to jointly owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a \$400 million revolving line of credit with a PPL Electric subsidiary. At September 30, 2017, \$2 million was outstanding and reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at September 30, 2017 was 2.98%.

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(LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2017 and December 31, 2016, \$159 million and \$163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at September 30, 2017 and December 31, 2016 were 2.73% and 2.12%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, \$10 million was outstanding and was reflected in "Notes payable with affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding borrowings at September 30, 2017 was 1.46%. Interest expense incurred on the money pool agreement with KU was not significant for the three and nine months ended September 30, 2017.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, KU had no payable balance outstanding, but had a \$10 million receivable balance outstanding, which was reflected in "Notes receivable from affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding receivable at September 30, 2017 was 1.46%. Interest income incurred on the money pool agreement with LG&E was not significant for the three and nine months ended September 30, 2017.

Other (PPL Electric, LG&E and KU)

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three and nine months ended September 30, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 676	\$ 676	\$ —	\$ —	\$ 341	\$ 341	\$ —	\$ —
Restricted cash and cash equivalents (a)	24	24	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	164	—	164	—	211	—	211	—
Cross-currency swaps	160	—	160	—	188	—	188	—
Total price risk management assets	324	—	324	—	399	—	399	—
Total assets	\$ 1,024	\$ 700	\$ 324	\$ —	\$ 766	\$ 367	\$ 399	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —
Foreign currency contracts	167	—	167	—	27	—	27	—
Total price risk management liabilities	\$ 198	\$ —	\$ 198	\$ —	\$ 58	\$ —	\$ 58	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 243	\$ 243	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 245	\$ 245	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 40	\$ 40	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Cash collateral posted to counterparties (c)	1	1	—	—	3	3	—	—
Total assets	\$ 41	\$ 41	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 9	\$ 9	\$ —	\$ —	\$ 5	\$ 5	\$ —	\$ —
Cash collateral posted to counterparties (c)	1	1	—	—	3	3	—	—
Total assets	\$ 10	\$ 10	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 31	\$ 31	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —
Total assets	\$ 31	\$ 31	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
- (c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 19,558	\$ 23,357	\$ 18,326	\$ 21,355
PPL Electric	3,298	3,724	2,831	3,148
LKE	5,068	5,592	5,065	5,439
LG&E	1,619	1,768	1,617	1,710
KU	2,328	2,602	2,327	2,514

- (a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and

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chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements *(PPL, LKE and LG&E)*

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$17 million obligation to return cash collateral under master netting arrangements at September 30, 2017 and a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

PPL, LKE and LG&E posted \$1 million and \$3 million of cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2017, PPL held an

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aggregate notional value in interest rate swap contracts of £188 million (approximately \$242 million based on spot rates) that mature in 2027 to hedge the interest payments of anticipated WPD debt issuances. These swaps require a mandatory early redemption on or before November 30, 2017.

For the three and nine months ended September 30, 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For the three months ended September 30, 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives and for the nine months ended September 30, 2016, PPL had an insignificant amount of hedge ineffectiveness associated with interest rate derivatives.

At September 30, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three and nine months ended September 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and nine months ended September 30, 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At September 30, 2017, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2017, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at September 30, 2017 had a notional amount of £92 million (approximately \$125 million based on contracted rates). These contracts mature in December 2017.

At September 30, 2017 and December 31, 2016, PPL had \$22 million and \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

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Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2017, the total exposure hedged by PPL was approximately £2.7 billion (approximately \$3.7 billion based on contracted rates). These contracts had termination dates ranging from October 2017 through April 2020.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2017 and December 31, 2016.

See Note 1 in each Registrant's 2016 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ 2	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	28	—	—	—	32	—	—	—
Foreign currency contracts	1	—	28	86	—	—	31	21
Total current	29	2	28	91	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	24	—	—	—	27
Cross-currency swaps (b)	132	—	—	—	156	—	—	—
Foreign currency contracts	—	—	135	81	—	—	180	6
Total noncurrent	132	—	135	105	156	—	180	33
Total derivatives	\$ 161	\$ 2	\$ 163	\$ 196	\$ 188	\$ —	\$ 211	\$ 58

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2017.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ (2)	Interest expense	\$ (2)	\$ —	\$ (6)	\$ (1)
Cross-currency swaps	1	(34)	Interest expense	1	—	1	—
			Other income (expense) - net	2	—	(24)	—
Total	\$ 1	\$ (36)		\$ 1	\$ —	\$ (29)	\$ (1)
Net Investment Hedges:							
Foreign currency contracts	\$ 1	\$ 1					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative		Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net		\$ (81)	\$ (237)
Interest rate swaps	Interest expense		(1)	(4)
	Total		\$ (82)	\$ (241)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets		Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent		\$ 1	\$ 2

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2016.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ (21)	Interest expense	\$ (2)	\$ —	\$ (5)	\$ —
Cross-currency swaps	78	87	Interest expense	2	—	2	—
			Other income (expense) - net	86	—	80	—
Total	\$ 78	\$ 66		\$ 86	\$ —	\$ 77	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ 4					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Income on Derivative			
Foreign currency contracts	Other income (expense) - net		\$ 49	\$ 280
Interest rate swaps	Interest expense		(2)	(6)
	Total		\$ 47	\$ 274

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as		Three Months	Nine Months
	Regulatory Liabilities/Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 2	\$ (7)

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	September 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 5	\$ —	\$ 4
Total current	—	5	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	24	—	27
Total noncurrent	—	24	—	27
Total derivatives	\$ —	\$ 29	\$ —	\$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (1)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 1	\$ 2

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2016.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (2)	\$ (6)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 2	\$ (7)

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(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
September 30, 2017								
Treasury Derivatives								
PPL	\$ 324	\$ 138	\$ 17	\$ 169	\$ 198	\$ 138	\$ 1	\$ 59
LKE	—	—	—	—	29	—	1	28
LG&E	—	—	—	—	29	—	1	28
December 31, 2016								
Treasury Derivatives								
PPL	\$ 399	\$ 27	\$ 19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At September 30, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

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	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 43	\$ 11	\$ 11
Aggregate fair value of collateral posted on these derivative instruments	1	1	1
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	42	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the nine months ended September 30, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2016	\$ 488	\$ 433	\$ 145	\$ 288
Accretion	16	15	5	10
Effect of foreign exchange rates	2	—	—	—
Changes in estimated timing or cost	(70)	(63)	(12)	(51)
Obligations settled	(30)	(30)	(20)	(10)
Balance at September 30, 2017	\$ 406	\$ 355	\$ 118	\$ 237

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

LKE recorded decreases of \$66 million (\$56 million at KU and \$10 million at LG&E) to the existing AROs during the nine months ended September 30, 2017 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended September 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
Amounts arising during the period	(12)	1	—	—	(3)	(14)
Reclassifications from AOCI	—	—	—	—	34	34
Net OCI during the period	(12)	1	—	—	31	20
September 30, 2017	<u>\$ (1,432)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,052)</u>	<u>\$ (3,503)</u>
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	195	(29)	—	—	(14)	152
Reclassifications from AOCI	—	24	1	1	97	123
Net OCI during the period	195	(5)	1	1	83	275
September 30, 2017	<u>\$ (1,432)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,052)</u>	<u>\$ (3,503)</u>
June 30, 2016	\$ (716)	\$ (5)	\$ (1)	\$ (5)	\$ (2,130)	\$ (2,857)
Amounts arising during the period	(641)	62	—	—	(6)	(585)
Reclassifications from AOCI	—	(69)	—	—	31	(38)
Net OCI during the period	(641)	(7)	—	—	25	(623)
September 30, 2016	<u>\$ (1,357)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,105)</u>	<u>\$ (3,480)</u>
December 31, 2015	\$ (520)	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the period	(837)	57	—	—	(4)	(784)
Reclassifications from AOCI	—	(62)	(1)	1	94	32
Net OCI during the period	(837)	(5)	(1)	1	90	(752)
September 30, 2016	<u>\$ (1,357)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,105)</u>	<u>\$ (3,480)</u>
LKE						
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)
Amounts arising during the period			—	—	(1)	(1)
Reclassifications from AOCI			—	—	1	1
Net OCI during the period			—	—	—	—
September 30, 2017			<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (70)</u>	<u>\$ (77)</u>
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period			—	—	(12)	(12)
Reclassifications from AOCI			1	1	3	5
Net OCI during the period			1	1	(9)	(7)
September 30, 2017			<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (70)</u>	<u>\$ (77)</u>
June 30, 2016			\$ (1)	\$ (9)	\$ (33)	\$ (43)
Reclassifications from AOCI			—	—	1	1
Net OCI during the period			—	—	1	1
September 30, 2016			<u>\$ (1)</u>	<u>\$ (9)</u>	<u>\$ (32)</u>	<u>\$ (42)</u>

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2015			\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			(1)	1	3	3
Net OCI during the period			(1)	1	4	4
September 30, 2016			\$ (1)	\$ (9)	\$ (32)	\$ (42)

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2017	2016	2017	2016	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (7)	\$ (5)	Interest Expense
Cross-currency swaps	2	86	(24)	80	Other Income (Expense) - net
	1	2	1	2	Interest Expense
Total Pre-tax	1	86	(30)	77	
Income Taxes	(1)	(17)	6	(15)	
Total After-tax	—	69	(24)	62	
Equity investees' AOCI					
Equity investees' AOCI	—	—	(1)	1	Other Income (Expense) - net
Total Pre-tax	—	—	(1)	1	
Income Taxes	—	—	—	—	
Total After-tax	—	—	(1)	1	
Defined benefit plans					
Prior service costs	(1)	(1)	(2)	(2)	
Net actuarial loss	(44)	(41)	(125)	(121)	
Total Pre-tax	(45)	(42)	(127)	(123)	
Income Taxes	11	11	29	28	
Total After-tax	(34)	(31)	(98)	(95)	
Total reclassifications during the period	\$ (34)	\$ 38	\$ (123)	\$ (32)	

17. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Registrants have completed an assessment of substantially all of their revenue under this new guidance and, for those assessments that have been completed, have determined it will not have a material impact on their current revenue recognition policies. The Registrants' operating revenues are derived primarily from tariff-based sales that result from providing electricity and natural gas to customers with no defined contractual term. Tariff-based sales are within the scope of the new guidance, and operating revenues under the new guidance will be equivalent to the electricity and natural gas delivered and billed in that

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period (including estimated billings), which is consistent with current practice. Management is still assessing the impact of the new standard on certain revenues in the U.K. Regulated segment and does not expect there to be a material impact to current practice, however, the assessment is still ongoing.

The disclosure requirements included in the standard will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. These disclosures will include disaggregation of revenues by geographic location, customer class or type of service, as applicable for each Registrant. Some revenue arrangements, including alternative revenue programs and lease income, are excluded from the scope of the new guidance and will be accounted for and disclosed separately from revenues from contracts with customers. The Registrants will also be required to disclose the opening and closing balances of accounts receivable and any contract assets or contract liabilities resulting from contracts with customers.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018 and will determine the transition method they will apply once they have completed their assessments and the implications of using either the full retrospective or modified retrospective transition methods are known.

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance in annual reporting periods beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during

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the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018.

For PPL's, LKE's and LG&E's U.S. defined benefit pension and PPL's and LKE's other postretirement benefit plans, the adoption of this new guidance is not expected to have a material impact on either the presentation on the income statements or the amounts capitalized and related impact to expense, as the difference between the service cost and the non-service cost components of net periodic benefit costs has not historically been and is not expected to be material in 2018.

For PPL's U.K. defined benefit pension plans, the non-service cost components of net periodic benefit cost has been in a net-credit position for the current reporting periods and is expected to continue to be in a net-credit position for 2018. Therefore, the estimated impact of adopting this new guidance related to the non-service cost component credits to be reclassified from "Other operation and maintenance" to "Other Income (Expense)-net" on the Statements of Income is approximately \$130 million and \$90 million for the nine months ended 2017 and 2016.

The Registrants are continuing to assess the expected 2018 impacts of adopting the guidance as the amounts will be affected by market conditions and assumptions selected at December 31, 2017.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2016 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2017 with the same periods in 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

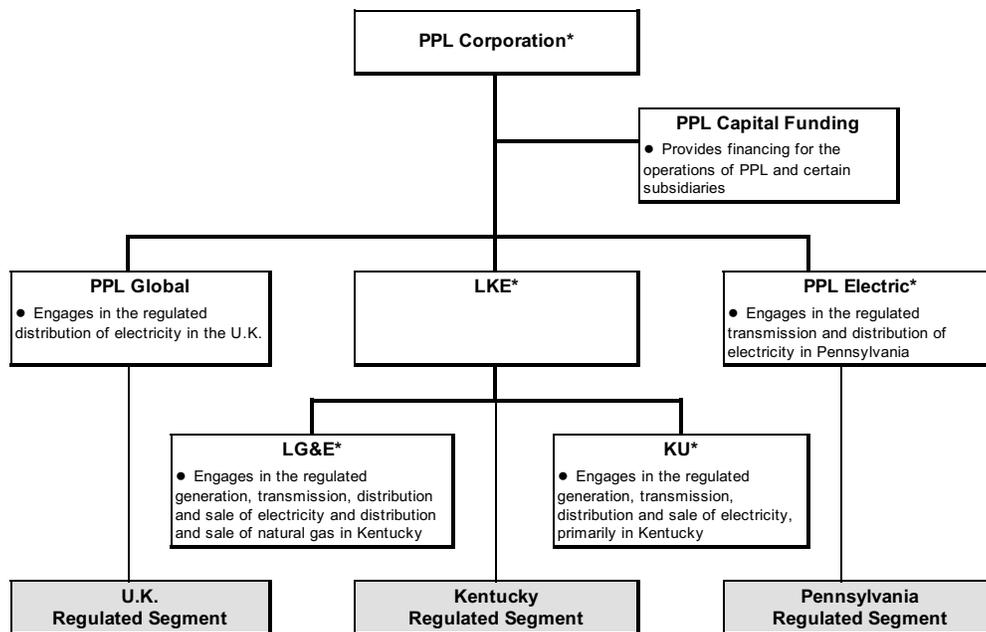
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).



PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. Although PPL Global is not a Registrant, unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and the Tennessee Public Utility Commission, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL is a fully regulated business consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base and RAV, as applicable, driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital outlay to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth after 2017 through at least 2020 at WPD. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2016 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and efficiency of operations.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to the Registrants' financial condition or results of operations. The Registrants are working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of October 18, 2017, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2017 at an average rate of \$1.22 per GBP, 99% hedged for 2018 at an average rate of \$1.32 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 15% hedged for 2020 at an average rate of \$1.47 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL)

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter were published in September 2017 and will be used to guide the full RIIO-2 framework consultation which is expected to be published in the first quarter of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

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(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 9 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2017 with the same periods in 2016. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU.

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income comparing the three and nine months ended September 30, 2017 with the same periods in 2016. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 1,845	\$ 1,889	\$ (44)	\$ 5,521	\$ 5,685	\$ (164)
Operating Expenses						
Operation						
Fuel	202	227	(25)	576	607	(31)
Energy purchases	143	151	(8)	494	531	(37)
Other operation and maintenance	397	417	(20)	1,217	1,292	(75)
Depreciation	257	232	25	745	692	53
Taxes, other than income	69	76	(7)	214	229	(15)
Total Operating Expenses	1,068	1,103	(35)	3,246	3,351	(105)
Other Income (Expense) - net	(76)	49	(125)	(235)	284	(519)
Interest Expense	230	223	7	669	671	(2)
Income Taxes	116	139	(23)	321	510	(189)
Net Income	\$ 355	\$ 473	\$ (118)	\$ 1,050	\$ 1,437	\$ (387)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Domestic:		
PPL Electric Distribution price (a)	\$ 16	\$ 46
PPL Electric Distribution volume	(20)	(30)
PPL Electric PLR Revenue (b)	(1)	(32)
PPL Electric Transmission Formula Rate	20	25
LKE Base rates	31	31
LKE Volumes	(41)	(86)
LKE Fuel and other energy prices	(8)	10
Other	(3)	(2)
Total Domestic	(6)	(38)
U.K.:		
Price	(3)	74
Volume	(12)	(24)
Foreign currency exchange rates	(21)	(183)
Other	(2)	7
Total U.K.	(38)	(126)
Total	\$ (44)	\$ (164)

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) Decrease for the nine months ended September 30, 2017 compared with 2016, primarily due to lower energy prices at PPL Electric.

Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$12 million decrease in PLR volumes, partially offset by a \$6 million increase in PLR prices at PPL Electric.

Energy purchases decreased \$37 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$24 million decrease in PLR prices and an \$11 million decrease in PLR volumes at PPL Electric.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Electric Act 129	\$ 3	\$ 11
PPL Electric payroll-related costs	(5)	(6)
PPL Electric vegetation management	(4)	(7)
PPL Electric bad debts	(4)	(10)
Other	(1)	1
U.K.:		
Pension (a)	(17)	(52)
Foreign currency exchange rates	(2)	(18)
Network maintenance	4	(4)
Third-party engineering	(1)	5
Other	7	5
Total	<u>\$ (20)</u>	<u>\$ (75)</u>

(a) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

Depreciation

Depreciation increased \$25 million and \$53 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU, partially offset by the impact of foreign currency exchange rates at WPD.

Other Income (Expense) - net

Other income (expense) - net decreased \$125 million and \$519 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

[Table of Contents](#)**Interest Expense**

The increase (decrease) in interest expense for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Long-term debt interest expense	\$ 9	\$ 22
Short-term debt interest expense	2	6
Foreign currency exchange rates	(4)	(31)
Other	—	1
Total	\$ 7	\$ (2)

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ (56)	\$ (198)
Valuation allowances adjustments	—	(4)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7)	(21)
Impact of U.K. Finance Acts (b)	39	30
Stock-based compensation	1	5
Other	—	(1)
Total	\$ (23)	\$ (189)

- (a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

Segment Earnings

PPL's net income by reportable segments for the periods ended September 30 were as follows:

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated	\$ 126	\$ 281	\$ (155)	\$ 560	\$ 915	\$ (355)
Kentucky Regulated	125	126	(1)	299	314	(15)
Pennsylvania Regulated	95	91	4	251	263	(12)
Corporate and Other (a)	9	(25)	34	(60)	(55)	(5)
Net Income	\$ 355	\$ 473	\$ (118)	\$ 1,050	\$ 1,437	\$ (387)

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The changes in 2017 compared with 2016 are primarily due to the timing impact of recording annual estimated taxes. This impact is expected to continue to reverse through the remainder of the year.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

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- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 13 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended September 30 were as follows:

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated	\$ 163	\$ 235	\$ (72)	\$ 682	\$ 741	\$ (59)
Kentucky Regulated	125	126	(1)	300	314	(14)
Pennsylvania Regulated	95	91	4	251	263	(12)
Corporate and Other	5	(25)	30	(64)	(53)	(11)
Earnings from Ongoing Operations	\$ 388	\$ 427	\$ (39)	\$ 1,169	\$ 1,265	\$ (96)

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 53% of PPL's Net Income for the nine months ended September 30, 2017 and 39% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 477	\$ 515	\$ (38)	\$ 1,547	\$ 1,673	\$ (126)
Other operation and maintenance	69	78	(9)	195	260	(65)
Depreciation	58	58	—	170	178	(8)
Taxes, other than income	33	34	(1)	94	104	(10)
Total operating expenses	160	170	(10)	459	542	(83)
Other Income (Expense) - net	(80)	50	(130)	(236)	283	(519)
Interest Expense	103	100	3	294	310	(16)
Income Taxes	8	14	(6)	(2)	189	(191)
Net Income	126	281	(155)	560	915	(355)
Less: Special Items	(37)	46	(83)	(122)	174	(296)
Earnings from Ongoing Operations	\$ 163	\$ 235	\$ (72)	\$ 682	\$ 741	\$ (59)

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended September 30.

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	Income Statement Line Item	Three Months		Nine Months	
		2017	2016	2017	2016
Foreign currency economic hedges, net of tax of \$20, \$103, \$66, \$34 (a)	Other Income (Expense) - net	\$ (37)	\$ (193)	\$ (122)	\$ (65)
Settlement of foreign currency contracts, net of tax of \$0, (\$108), \$0, (\$108) (b)	Other Income (Expense) - net	—	202	—	202
Change in U.K. tax rate (c)	Income Taxes	—	37	—	37
Total Special Items		\$ (37)	\$ 46	\$ (122)	\$ 174

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. The three and nine months ended September 30, 2016 include the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.
- (b) In the third quarter of 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statements of Income.
- (c) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K.'s statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liability and recognized an income tax benefit of \$42 million in the third quarter of 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and was treated as a special item.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	Three Months	Nine Months
U.K.		
Gross margins	\$ (17)	\$ 52
Other operation and maintenance	7	50
Depreciation	(3)	(12)
Interest expense	(7)	(15)
Other	(2)	(4)
Income taxes	(2)	2
U.S.		
Interest expense and other	1	3
Income taxes	(3)	28
Foreign currency exchange, after-tax	(46)	(163)
Earnings from Ongoing Operations	(72)	(59)
Special items, after-tax	(83)	(296)
Net Income	\$ (155)	\$ (355)

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$17 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate, partially offset by \$4 million from higher network maintenance expense.
- Lower other operation and maintenance expense for the nine month period primarily due to \$52 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.
- Higher interest expense for the three and nine month periods primarily due to higher interest expense on indexed linked bonds.
- Higher income taxes for the three month period primarily due to \$9 million related to tax rate changes to deferred taxes, partially offset by a decrease of \$4 million from lower pre-tax income.

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- Lower income taxes for the nine month period primarily due to decreases of \$10 million related to accelerated tax deductions and \$6 million from 2016 expense related to the finalization of U.K. tax returns, partially offset by increases of \$14 million from higher pre-tax income.

U.S.

- Lower income taxes for the nine month period primarily due to the tax benefit on accelerated pension contributions made in the first quarter of 2017.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 28% of PPL's Net Income for the nine months ended September 30, 2017 and 35% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 818	\$ 835	\$ (17)	\$ 2,350	\$ 2,382	\$ (32)
Fuel	202	227	(25)	576	607	(31)
Energy purchases	22	24	(2)	120	118	2
Other operation and maintenance	199	197	2	598	603	(5)
Depreciation	114	102	12	324	301	23
Taxes, other than income	17	16	1	49	46	3
Total operating expenses	554	566	(12)	1,667	1,675	(8)
Other Income (Expense) - net	1	(3)	4	(5)	(9)	4
Interest Expense	65	65	—	196	194	2
Income Taxes	75	75	—	183	190	(7)
Net Income	125	126	(1)	299	314	(15)
Less: Special Items	—	—	—	(1)	—	(1)
Earnings from Ongoing Operations	\$ 125	\$ 126	\$ (1)	\$ 300	\$ 314	\$ (14)

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months	
	2017	2016	2017	2016
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a)	\$ —	\$ —	\$ (1)	\$ —
Total Special Items	\$ —	\$ —	\$ (1)	\$ —

(a) KU recorded a write-off of an equity method investment.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and the item that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Kentucky Gross Margins	\$ 10	\$ (13)
Other operation and maintenance	(5)	6
Depreciation	(10)	(15)
Taxes, other than income	—	(2)
Other Income (Expense) - net	4	5
Interest Expense	—	(2)
Income Taxes	—	7
Earnings from Ongoing Operations	(1)	(14)
Special items, after-tax	—	(1)
Net Income	<u>\$ (1)</u>	<u>\$ (15)</u>

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Higher depreciation expense for the three and nine month periods primarily due to higher depreciation rates effective July 1, 2017, and additions to PP&E, net of retirements.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 24% of PPL's Net Income for the nine months ended September 30, 2017 and 25% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 547	\$ 539	\$ 8	\$ 1,620	\$ 1,619	\$ 1
Energy purchases	121	129	(8)	374	414	(40)
Other operation and maintenance	132	143	(11)	435	431	4
Depreciation	77	64	13	228	185	43
Taxes, other than income	27	26	1	79	79	—
Total operating expenses	357	362	(5)	1,116	1,109	7
Other Income (Expense) - net	5	4	1	11	12	(1)
Interest Expense	36	32	4	105	97	8
Income Taxes	64	58	6	159	162	(3)
Net Income	95	91	4	251	263	(12)
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	<u>\$ 95</u>	<u>\$ 91</u>	<u>\$ 4</u>	<u>\$ 251</u>	<u>\$ 263</u>	<u>\$ (12)</u>

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Nine Months
Pennsylvania Gross Margins	\$ 6	\$ 14
Other operation and maintenance	16	8
Depreciation	(8)	(29)
Taxes, other than income	(1)	1
Other Income (Expense) - net	1	(1)
Interest Expense	(4)	(8)
Income Taxes	(6)	3
Net Income	<u>\$ 4</u>	<u>\$ (12)</u>

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- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$5 million of lower payroll related expenses, \$4 million of lower bad debt expense and \$4 million of lower vegetation management expenses.
- Lower other operation and maintenance expense for the nine month period primarily due to \$10 million of lower bad debt expenses, \$7 million of lower vegetation management expenses and \$7 million of lower payroll related expenses, partially offset by \$17 million of higher corporate service costs allocated to PPL Electric.
- Higher depreciation expense for the three and nine month periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.
- Higher interest expense for the nine month period primarily due to the issuance of \$475 million of 3.950% First Mortgage Bonds in May 2017.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended September 30.

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 126	\$ 125	\$ 95	\$ 9	\$ 355
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$20	(37)	—	—	—	(37)
Spinoff of the Supply segment, net of tax of (\$2) (a)	—	—	—	4	4
Total Special Items	(37)	—	—	4	(33)
Earnings from Ongoing Operations	\$ 163	\$ 125	\$ 95	\$ 5	\$ 388

	2016 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 281	\$ 126	\$ 91	\$ (25)	\$ 473
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$103	(193)	—	—	—	(193)
Other:					
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	46	—	—	—	46
Earnings from Ongoing Operations	\$ 235	\$ 126	\$ 91	\$ (25)	\$ 427

	2017 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 560	\$ 299	\$ 251	\$ (60)	\$ 1,050
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$66	(122)	—	—	—	(122)
Spinoff of the Supply segment, net of tax of (\$2) (a)	—	—	—	4	4
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(122)	(1)	—	4	(119)
Earnings from Ongoing Operations	\$ 682	\$ 300	\$ 251	\$ (64)	\$ 1,169

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	2016 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 915	\$ 314	\$ 263	\$ (55)	\$ 1,437
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$34	(65)	—	—	—	(65)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(2)	(2)
Other:					
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	174	—	—	(2)	172
Earnings from Ongoing Operations	\$ 741	\$ 314	\$ 263	\$ (53)	\$ 1,265

(a) Represents a tax settlement associated with the former Supply segment. Included in "Taxes, other than income" on the Statements of Income.

Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

The following table shows Margins by PPL's reportable segment and by component, as applicable, for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

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	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated						
U.K. Gross Margins	\$ 441	\$ 476	\$ (35)	\$ 1,446	\$ 1,566	\$ (120)
Impact of changes in foreign currency exchange rates			(18)			(172)
U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ (17)			\$ 52
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 245	\$ 237	\$ 8	\$ 678	\$ 676	\$ 2
KU	302	300	2	842	857	(15)
Total Kentucky Gross Margins	\$ 547	\$ 537	\$ 10	\$ 1,520	\$ 1,533	\$ (13)
Pennsylvania Regulated						
Pennsylvania Gross Margins						
Distribution	\$ 233	\$ 246	\$ (13)	\$ 710	\$ 721	\$ (11)
Transmission	134	115	19	357	332	25
Total Pennsylvania Gross Margins	\$ 367	\$ 361	\$ 6	\$ 1,067	\$ 1,053	\$ 14

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased for the three months ended September 30, 2017 compared with 2016, primarily due to \$12 million of lower volumes and \$3 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$83 million from the April 1, 2016 price increase partially offset by \$24 million of lower volumes and \$9 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, partially offset by \$20 million of lower sales volumes due to milder weather in 2017 (\$8 million at LG&E and \$12 million at KU).

Kentucky Gross Margins decreased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$51 million of lower sales volumes due to milder weather in 2017 (\$17 million at LG&E and \$34 million at KU), partially offset by higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017.

Pennsylvania Gross Margins

Distribution

Distribution margins decreased for the three and nine month periods ended September 30, 2017 compared with 2016, primarily due to \$11 million and \$16 million of lower electricity sales volumes due to milder weather in 2017.

Transmission

Transmission margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to an increase of \$20 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability.

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Transmission margins increased for the nine months ended September 30, 2017 compared with 2016, primarily due to an increase of \$42 million primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended September 30.

	2017 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 467 (c)	\$ 818	\$ 547	\$ 13	\$ 1,845
Operating Expenses					
Fuel	—	202	—	—	202
Energy purchases	—	22	121	—	143
Other operation and maintenance	26	30	29	312	397
Depreciation	—	16	5	236	257
Taxes, other than income	—	1	25	43	69
Total Operating Expenses	26	271	180	591	1,068
Total	\$ 441	\$ 547	\$ 367	\$ (578)	\$ 777

	2016 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 504 (c)	\$ 835	\$ 539	\$ 11	\$ 1,889
Operating Expenses					
Fuel	—	227	—	—	227
Energy purchases	—	24	129	(2)	151
Other operation and maintenance	28	33	24	332	417
Depreciation	—	14	—	218	232
Taxes, other than income	—	—	25	51	76
Total Operating Expenses	28	298	178	599	1,103
Total	\$ 476	\$ 537	\$ 361	\$ (588)	\$ 786

	2017 Nine Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,517 (c)	\$ 2,350	\$ 1,620	\$ 34	\$ 5,521
Operating Expenses					
Fuel	—	576	—	—	576
Energy purchases	—	120	374	—	494
Other operation and maintenance	71	82	89	975	1,217
Depreciation	—	48	14	683	745
Taxes, other than income	—	4	76	134	214
Total Operating Expenses	71	830	553	1,792	3,246
Total	\$ 1,446	\$ 1,520	\$ 1,067	\$ (1,758)	\$ 2,275

	2016 Nine Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,641 (c)	\$ 2,382	\$ 1,619	\$ 43	\$ 5,685
Operating Expenses					
Fuel	—	607	—	—	607
Energy purchases	—	118	414	(1)	531
Other operation and maintenance	75	81	77	1,059	1,292
Depreciation	—	40	—	652	692
Taxes, other than income	—	3	75	151	229
Total Operating Expenses	75	849	566	1,861	3,351
Total	\$ 1,566	\$ 1,533	\$ 1,053	\$ (1,818)	\$ 2,334

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$11 million and \$30 million for the three and nine months ended September 30, 2017 and \$11 million and \$32 million for the three and nine months ended September 30, 2016.

2017 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2017 compared with 2016, primarily driven by a lower assumed GBP exchange rate in 2017, lower true-up mechanisms, lower incentive revenues, higher interest expense and higher depreciation expense, partially offset by lower operation and maintenance expense, including pension expense, and higher base revenue from the April 1, 2017 price reset.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Lower net income is projected in 2017 compared with 2016, primarily driven by lower electricity sales volumes due to unfavorable weather in 2017 and higher depreciation expense, partially offset by electricity and gas base rate increases.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016, primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 9 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2016 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 547	\$ 539	\$ 8	\$ 1,620	\$ 1,619	\$ 1
Operating Expenses						
Operation						
Energy purchases	121	129	(8)	374	414	(40)
Other operation and maintenance	133	144	(11)	435	431	4
Depreciation	77	64	13	228	185	43
Taxes, other than income	27	26	1	79	79	—
Total Operating Expenses	358	363	(5)	1,116	1,109	7
Other Income (Expense) - net	4	4	—	8	12	(4)
Interest Income from Affiliate	2	—	2	3	—	3
Interest Expense	36	32	4	105	97	8
Income Taxes	64	58	6	159	162	(3)
Net Income	<u>\$ 95</u>	<u>\$ 90</u>	<u>\$ 5</u>	<u>\$ 251</u>	<u>\$ 263</u>	<u>\$ (12)</u>

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Distribution Price (a)	\$ 16	\$ 46
Distribution volume	(20)	(30)
PLR (b)	(1)	(32)
Transmission Formula Rate	20	25
Other	(7)	(8)
Total	<u>\$ 8</u>	<u>\$ 1</u>

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) The decrease for the nine month period was primarily due to lower energy prices as described below.

Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to lower PLR volumes of \$12 million partially offset by higher PLR prices of \$6 million.

Energy purchases decreased \$40 million for the nine months ended September 30, 2017 compared with 2016, primarily due to lower PLR prices of \$24 million and lower PLR volumes of \$11 million.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

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	Three Months	Nine Months
Corporate service costs	\$ —	\$ 17
Vegetation management	(4)	(7)
Payroll-related costs	(5)	(6)
Act 129	3	11
Bad debts	(4)	(10)
Other	(1)	(1)
Total	<u>\$ (11)</u>	<u>\$ 4</u>

Depreciation

Depreciation increased \$13 million and \$43 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Interest Expense

Interest expense increased \$4 million and \$8 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ 3	\$ (7)
Stock-based compensation	—	2
Other	3	2
Total	<u>\$ 6</u>	<u>\$ (3)</u>

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 95	\$ 90	\$ 251	\$ 263
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items that management considers special for the periods presented.

Earnings increased for the three month period in 2017 compared with 2016 as higher transmission margins from additional capital investments and lower other operation and maintenance expense were offset by lower sales volumes due to unfavorable weather and higher depreciation expense.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to higher depreciation expense, primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements, higher interest expense, and lower distribution margins primarily due to lower sales volumes due to unfavorable weather in 2017. Higher transmission margins from additional capital investments were partially offset by a lower PPL zonal peak load billing factor.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Pennsylvania Gross Margins	\$ 6	\$ 14
Other operation and maintenance	16	8
Depreciation	(8)	(29)
Taxes, other than income	(1)	1
Other Income (Expense) - net	2	(1)
Interest Expense	(4)	(8)
Income Taxes	(6)	3
Net Income	<u>\$ 5</u>	<u>\$ (12)</u>

Margins

"Pennsylvania Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 547	\$ —	\$ 547	\$ 539	\$ —	\$ 539
Operating Expenses						
Energy purchases	121	—	121	129	—	129
Other operation and maintenance	29	104	133	24	120	144
Depreciation	5	72	77	—	64	64
Taxes, other than income	25	2	27	25	1	26
Total Operating Expenses	<u>180</u>	<u>178</u>	<u>358</u>	<u>178</u>	<u>185</u>	<u>363</u>
Total	<u>\$ 367</u>	<u>\$ (178)</u>	<u>\$ 189</u>	<u>\$ 361</u>	<u>\$ (185)</u>	<u>\$ 176</u>

	2017 Nine Months			2016 Nine Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,620	\$ —	\$ 1,620	\$ 1,619	\$ —	\$ 1,619
Operating Expenses						
Energy purchases	374	—	374	414	—	414
Other operation and maintenance	89	346	435	77	354	431
Depreciation	14	214	228	—	185	185
Taxes, other than income	76	3	79	75	4	79
Total Operating Expenses	<u>553</u>	<u>563</u>	<u>1,116</u>	<u>566</u>	<u>543</u>	<u>1,109</u>
Total	<u>\$ 1,067</u>	<u>\$ (563)</u>	<u>\$ 504</u>	<u>\$ 1,053</u>	<u>\$ (543)</u>	<u>\$ 510</u>

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 818	\$ 835	\$ (17)	\$ 2,350	\$ 2,382	\$ (32)
Operating Expenses						
Operation						
Fuel	202	227	(25)	576	607	(31)
Energy purchases	22	24	(2)	120	118	2
Other operation and maintenance	199	197	2	598	603	(5)
Depreciation	114	102	12	324	301	23
Taxes, other than income	17	16	1	49	46	3
Total Operating Expenses	554	566	(12)	1,667	1,675	(8)
Other Income (Expense) - net	1	(3)	4	(5)	(9)	4
Interest Expense	49	50	(1)	148	147	1
Interest Expense with Affiliate	5	4	1	13	12	1
Income Taxes	79	79	—	195	202	(7)
Net Income	\$ 132	\$ 133	\$ (1)	\$ 322	\$ 337	\$ (15)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Base rates	\$ 31	\$ 31
Volumes	(41)	(86)
Fuel and other energy prices	(8)	10
Other	1	13
Total	\$ (17)	\$ (32)

Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

Depreciation

Depreciation increased \$12 million for the three months ended September 30, 2017 compared with 2016 due to a \$7 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$23 million for the nine months ended September 30, 2017 compared with 2016 due to a \$16 million increase related to additions to PP&E, net of retirements, and a \$7 million increase related to higher depreciation rates effective July 1, 2017.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 132	\$ 133	\$ 322	\$ 337
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings decreased for the three and nine month periods in 2017 compared with 2016, primarily due to lower sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 10	\$ (13)
Other operation and maintenance	(5)	6
Depreciation	(10)	(15)
Taxes, other than income	—	(2)
Other Income (Expense) - net	4	5
Interest Expense	—	(2)
Income Taxes	—	7
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	\$ (1)	\$ (15)

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 818	\$ —	\$ 818	\$ 835	\$ —	\$ 835
Operating Expenses						
Fuel	202	—	202	227	—	227
Energy purchases	22	—	22	24	—	24
Other operation and maintenance	30	169	199	33	164	197
Depreciation	16	98	114	14	88	102
Taxes, other than income	1	16	17	—	16	16
Total Operating Expenses	271	283	554	298	268	566
Total	\$ 547	\$ (283)	\$ 264	\$ 537	\$ (268)	\$ 269

	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,350	\$ —	\$ 2,350	\$ 2,382	\$ —	\$ 2,382
Operating Expenses						
Fuel	576	—	576	607	—	607
Energy purchases	120	—	120	118	—	118
Other operation and maintenance	82	516	598	81	522	603
Depreciation	48	276	324	40	261	301
Taxes, other than income	4	45	49	3	43	46
Total Operating Expenses	830	837	1,667	849	826	1,675
Total	\$ 1,520	\$ (837)	\$ 683	\$ 1,533	\$ (826)	\$ 707

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 361	\$ 366	\$ (5)	\$ 1,055	\$ 1,058	\$ (3)
Electric revenue from affiliate	2	2	—	23	19	4
Total Operating Revenues	363	368	(5)	1,078	1,077	1
Operating Expenses						
Operation						
Fuel	76	86	(10)	225	233	(8)
Energy purchases	18	19	(1)	107	104	3
Energy purchases from affiliate	3	5	(2)	8	10	(2)
Other operation and maintenance	89	85	4	262	264	(2)
Depreciation	47	43	4	136	126	10
Taxes, other than income	8	9	(1)	25	24	1
Total Operating Expenses	241	247	(6)	763	761	2
Other Income (Expense) - net	(1)	(1)	—	(2)	(6)	4
Interest Expense	17	18	(1)	53	53	—
Income Taxes	39	39	—	99	98	1
Net Income	\$ 65	\$ 63	\$ 2	\$ 161	\$ 159	\$ 2

[Table of Contents](#)**Operating Revenues**

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Base rates	\$ 18	\$ 18
Volumes	(16)	(26)
Fuel and other energy prices	(4)	4
Other	(3)	5
Total	<u>\$ (5)</u>	<u>\$ 1</u>

Fuel

Fuel decreased \$10 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$6 million decrease in market prices for coal and a \$5 million decrease in volumes driven by milder weather in the third quarter of 2017.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Plant operations and maintenance	\$ 1	\$ (1)
Pension expense	1	1
Timing and scope of generation maintenance outages	—	(1)
Storm costs	—	(1)
Other	2	—
Total	<u>\$ 4</u>	<u>\$ (2)</u>

Depreciation

Depreciation increased \$4 million for the three months ended September 30, 2017 compared with 2016 due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 65	\$ 63	\$ 161	\$ 159
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings increased for the three month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017, partially offset by lower sales volumes driven by milder weather.

Earnings increased for the nine month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017 and lower other operation and maintenance expense, partially offset by lower sales volumes driven by milder weather.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Margins	\$ 8	\$ 2
Other operation and maintenance	(4)	3
Depreciation	(5)	(6)
Taxes, other than income	2	—
Other Income (Expense) - net	—	4
Interest Expense	1	—
Income Taxes	—	(1)
Net Income	<u>\$ 2</u>	<u>\$ 2</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 363	\$ —	\$ 363	\$ 368	\$ —	\$ 368
Operating Expenses						
Fuel	76	—	76	86	—	86
Energy purchases, including affiliate	21	—	21	24	—	24
Other operation and maintenance	13	76	89	13	72	85
Depreciation	7	40	47	8	35	43
Taxes, other than income	1	7	8	—	9	9
Total Operating Expenses	118	123	241	131	116	247
Total	<u>\$ 245</u>	<u>\$ (123)</u>	<u>\$ 122</u>	<u>\$ 237</u>	<u>\$ (116)</u>	<u>\$ 121</u>

	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,078	\$ —	\$ 1,078	\$ 1,077	\$ —	\$ 1,077
Operating Expenses						
Fuel	225	—	225	233	—	233
Energy purchases, including affiliate	115	—	115	114	—	114
Other operation and maintenance	33	229	262	32	232	264
Depreciation	24	112	136	20	106	126
Taxes, other than income	3	22	25	2	22	24
Total Operating Expenses	400	363	763	401	360	761
Total	<u>\$ 678</u>	<u>\$ (363)</u>	<u>\$ 315</u>	<u>\$ 676</u>	<u>\$ (360)</u>	<u>\$ 316</u>

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 457	\$ 469	\$ (12)	\$ 1,295	\$ 1,324	\$ (29)
Electric revenue from affiliate	3	5	(2)	8	10	(2)
Total Operating Revenues	460	474	(14)	1,303	1,334	(31)
Operating Expenses						
Operation						
Fuel	126	141	(15)	351	374	(23)
Energy purchases	4	5	(1)	13	14	(1)
Energy purchases from affiliate	2	2	—	23	19	4
Other operation and maintenance	104	107	(3)	313	320	(7)
Depreciation	67	59	8	188	175	13
Taxes, other than income	9	7	2	24	22	2
Total Operating Expenses	312	321	(9)	912	924	(12)
Other Income (Expense) - net	—	(3)	3	(3)	(4)	1
Interest Expense	24	24	—	72	71	1
Income Taxes	47	48	(1)	120	128	(8)
Net Income	\$ 77	\$ 78	\$ (1)	\$ 196	\$ 207	\$ (11)

Operating Revenue

The increase (decrease) in operating revenue for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Base rates	\$ 13	\$ 13
Volumes	(27)	(57)
Fuel and other energy prices	(3)	5
Other	3	8
Total	\$ (14)	\$ (31)

Fuel

Fuel decreased \$15 million for the three months ended September 30, 2017 compared with 2016, primarily due to an \$11 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$3 million decrease in market prices for coal.

Fuel decreased \$23 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$29 million decrease in volumes driven by milder weather in 2017.

[Table of Contents](#)**Depreciation**

Depreciation increased \$8 million for the three months ended September 30, 2017 compared with 2016 due to a \$5 million increase related to higher depreciation rates effective July 1, 2017 and a \$3 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$13 million for the nine months ended September 30, 2017 compared with 2016 due to an \$8 million increase related to additions to PP&E, net of retirements, and a \$5 million increase related to higher depreciation rates effective July 1, 2017.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 77	\$ 78	\$ 196	\$ 207
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings decreased for the three month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017 and lower other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 2	\$ (15)
Other operation and maintenance	—	7
Depreciation	(5)	(9)
Taxes, other than income	(2)	(2)
Other Income (Expense) - net	3	2
Interest Expense	—	(1)
Income Taxes	1	8
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	\$ (1)	\$ (11)

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

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	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 460	\$ —	\$ 460	\$ 474	\$ —	\$ 474
Operating Expenses						
Fuel	126	—	126	141	—	141
Energy purchases, including affiliate	6	—	6	7	—	7
Other operation and maintenance	17	87	104	20	87	107
Depreciation	9	58	67	6	53	59
Taxes, other than income	—	9	9	—	7	7
Total Operating Expenses	158	154	312	174	147	321
Total	\$ 302	\$ (154)	\$ 148	\$ 300	\$ (147)	\$ 153

	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,303	\$ —	\$ 1,303	\$ 1,334	\$ —	\$ 1,334
Operating Expenses						
Fuel	351	—	351	374	—	374
Energy purchases, including affiliate	36	—	36	33	—	33
Other operation and maintenance	49	264	313	49	271	320
Depreciation	24	164	188	20	155	175
Taxes, other than income	1	23	24	1	21	22
Total Operating Expenses	461	451	912	477	447	924
Total	\$ 842	\$ (451)	\$ 391	\$ 857	\$ (447)	\$ 410

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
September 30, 2017					
Cash and cash equivalents	\$ 676	\$ 243	\$ 40	\$ 9	\$ 31
Notes receivable from affiliate		2	—	—	10
Short-term debt	1,211	—	190	190	—
Notes payable with affiliate		—	159	10	—
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Notes payable with affiliate		—	163	—	—

- (a) At September 30, 2017, \$86 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2016 Form 10-K for additional information on undistributed earnings of WPD.

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Net cash provided by (used in) operating, investing and financing activities for the nine month periods ended September 30, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2017					
Operating activities	\$ 1,754	\$ 575	\$ 920	\$ 418	\$ 501
Investing activities	(2,164)	(858)	(575)	(293)	(289)
Financing activities	738	513	(318)	(121)	(188)
2016					
Operating activities	\$ 2,230	\$ 595	\$ 816	\$ 383	\$ 469
Investing activities	(2,066)	(740)	(599)	(343)	(254)
Financing activities	(558)	134	(236)	(55)	(219)
Change - Cash Provided (Used)					
Operating activities	\$ (476)	\$ (20)	\$ 104	\$ 35	\$ 32
Investing activities	(98)	(118)	24	50	(35)
Financing activities	1,296	379	(82)	(66)	31

Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2017 compared with 2016 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ (387)	\$ (12)	\$ (15)	\$ 2	\$ (11)
Non-cash components	(23)	34	(18)	(11)	4
Working capital	91	(3)	78	(9)	31
Defined benefit plan funding	(213)	(24)	50	42	(3)
Other operating activities	56	(15)	9	11	11
Total	<u>\$ (476)</u>	<u>\$ (20)</u>	<u>\$ 104</u>	<u>\$ 35</u>	<u>\$ 32</u>

(PPL)

PPL's cash provided by operating activities in 2017 decreased \$476 million compared with 2016.

- The \$27 million decrease in non-cash components was primarily due to a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans) and an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs), partially offset by an increase in unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017, partially offset by the impact of foreign currency exchange rates at WPD).
- The \$91 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable and unbilled revenue (primarily due to a decrease in volumes due to milder weather in 2017 compared to 2016), a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, material and supplies (primarily due to a decrease in fuel purchases due to milder weather in 2017 compared to 2016), and an increase in accrued interest, partially offset by a decrease in accounts payable (primarily due to an increase in accrued expenditures for property, plant and equipment and timing of payments) and a decrease in taxes payable (primarily due to an increase in current income tax benefit in 2017).
- Defined benefit plan funding was \$213 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans. See Note 8 to the Financial Statements for additional information.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2017 decreased \$20 million compared with 2016.

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- The \$34 million increase in non-cash components was primarily due to an increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements), partially offset by a decrease in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$3 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016) and a decrease in accounts payable (primarily due to timing of payments), partially offset by a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in unbilled revenue (primarily due to lower volumes due to milder weather in 2017 compared to 2016), an increase in taxes payable (primarily due to a decrease in the current income tax benefit) and a decrease in accounts receivable (primarily due to a decrease in volumes due to milder weather in 2017 and income tax refunds received).
- Defined benefit plan funding was \$24 million higher in 2017.

(LKE)

LKE's cash provided by operating activities in 2017 increased \$104 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in taxes payable due to timing of payments, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$50 million lower in 2017.

(LG&E)

LG&E's cash provided by operating activities in 2017 increased \$35 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in accounts payable due to fuel purchases from lower generation and timing of payments and taxes payable due to timing of payments, partially offset by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016 and accounts receivable from affiliates due to timing of intercompany settlements associated with inventory and energy sales to KU.
- Defined benefit plan funding was \$42 million lower in 2017.

(KU)

KU's cash provided by operating activities in 2017 increased \$32 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by a decrease in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in accounts payable due to the timing of fuel purchases and payments, partially offset by a decrease in taxes payable due to timing of payments and accounts payable to affiliates due to timing of intercompany settlements associated with inventory and energy purchases from LG&E.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the nine months ended September 30, 2017 compared with 2016 was as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Decrease (Increase)	\$ (79)	\$ (112)	\$ 21	\$ 50	\$ (28)

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For PPL, the increase in expenditures was due to higher project expenditures at PPL Electric and KU partially offset by lower project expenditures at WPD and LG&E. The increase in expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The decrease in expenditures for WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability. The decrease in expenditures for LG&E was primarily due to reduced spending for environmental air projects at LG&E's Mill Creek plant, partially offset by increased spending for environmental water projects at LG&E's Mill Creek plant. The increase in expenditures for KU was primarily due to increased spending for environmental water projects at KU's Ghent plant.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2017 compared with 2016 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 692	\$ 470	\$ —	\$ —	\$ —
Settlement of cross-currency swaps	(46)	—	—	—	—
Stock issuances/redemptions, net	142	—	—	—	—
Dividends	(28)	(38)	—	(63)	26
Capital contributions/distributions, net	—	375	(129)	(47)	(20)
Change in short-term debt, net	537	(425)	135	35	25
Notes payable with affiliate	—	—	(88)	10	—
Other financing activities	(1)	(3)	—	(1)	—
Total	\$ 1,296	\$ 379	\$ (82)	\$ (66)	\$ 31

See Note 7 to the Financial Statements in this Form 10-Q for information on 2017 short-term and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2016 Form 10-K for information on 2016 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At September 30, 2017, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

External

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit and Commercial Paper Issued</u>	<u>Unused Capacity</u>
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 303	\$ 1,097
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	190	310
KU Credit Facilities	598	—	198	400
Total LKE	1,173	—	388	785
Total U.S. Credit Facilities (a)	\$ 3,223	\$ —	\$ 692	\$ 2,531
Total U.K. Credit Facilities (b)	£ 1,285	£ 501	£ —	£ 783

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- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.
- (b) The amounts borrowed at September 30, 2017 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$446 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £156 million as of the date borrowed. At September 30, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.0 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 20% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 159	\$ —	\$ 66
LG&E Money Pool (a)	500	10	190	300
KU Money Pool (a)	500	—	—	500

- (a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 10 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at September 30, 2017:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 285	\$ 715
PPL Electric	650	—	650
LG&E	350	190	160
KU	350	—	350
Total LKE	700	190	510
Total PPL	\$ 2,350	\$ 475	\$ 1,875

Long-term Debt (All Registrants)

See Note 7 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

ATM Program

For the periods ended September 30, 2017, PPL issued the following:

	Three Months	Nine Months
Number of shares (in thousands)	2,049	5,526
Average share price	\$ 39.04	\$ 38.49
Net Proceeds	\$ 79	\$ 211

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See Note 7 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2017:

(PPL)

In March 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £50 million 0.01% Index-linked Senior Notes due 2029.

In September 2017, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$500 million 4.00% Senior Notes due 2047.

(PPL and PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$475 million 3.95% First Mortgage Bonds due 2047.

In August 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for LCIDA's \$116 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016A due 2029 and LCIDA's \$108 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016B due 2027, each previously issued on behalf of PPL Electric.

(PPL, LKE and LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$128 million 1.5% Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's \$60 million 3.75% Environmental Facilities Revenue Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033, issued on behalf of LG&E.

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In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$31 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$35 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

(PPL, LKE and KU)

In July 2017, Moody's affirmed its rating of Aa2 and in August 2017, S&P confirmed its rating of AA for the County of Mercer, Kentucky's \$13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's \$50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's \$78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's \$54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 13 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at September 30, 2017.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2016 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 12 and 13 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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The following interest rate hedges were outstanding at September 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 242	\$ (2)	\$ (3)	2027
Cross-currency swaps (c)	802	162	(90)	2028
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at September 30, 2017 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at September 30, 2017 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 600
PPL Electric	165
LKE	172
LG&E	63
KU	95

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at September 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Net investment hedges (b)	£ 92	\$ 1	\$ (12)	2017
Economic hedges (c)	2,728	(4)	(340)	2020

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

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- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
- (c) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 12 and 13 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2016 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$194 million for the nine months ended September 30, 2017, which primarily reflected a \$345 million increase to PP&E and a \$75 million increase to goodwill partially offset by a \$203 million increase to long-term debt and a \$23 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$840 million for the nine months ended September 30, 2016, which primarily reflected a \$1.6 billion decrease to PP&E and \$375 million decrease to goodwill partially offset by a \$995 million decrease to long-term debt and a \$160 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCL.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 10 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2016 Form 10-K for information on the more significant activities.

[Table of Contents](#)**Environmental Matters** *(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. In addition, the regulatory reviews specified in the President's March 2017 Executive Order promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 9 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- CCRs,
- ELGs, and
- NAAQS.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2016 Form 10-K for additional information on environmental matters.

New Accounting Guidance *(All Registrants)*

See Note 17 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2016 Form 10-K for a discussion of each critical accounting policy.

	PPL	PPL Electric	LKE	LG&E	KU
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Price Risk Management	X				
Regulatory Assets and Liabilities	X	X	X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2017, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2016 Form 10-K; and
- Notes 6 and 9 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2016 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

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- [4\(a\)](#) - Supplemental Indenture No. 16, dated as of September 8, 2017, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- [*4\(b\)](#) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017
- [*4\(c\)](#) - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017
- [*10\(a\)-1](#) - £20,000,000 Uncommitted Facility Letter entered into between Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc and BNP Paribas, dated as of January 23, 2014
- [*10\(a\)-2](#) - Amendment to said Uncommitted Facility Letter, dated as of July 28, 2017
- [*10\(b\)](#) - \$200,000,000 Term Loan Credit Agreement, dated as of October 26, 2017, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party hereto and U.S. Bank National Association, as Administrative Agent
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2017, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(d\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(e\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(f\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(g\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(h\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(i\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(j\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2017, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

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101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: November 1, 2017

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: November 1, 2017

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: November 1, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) (REGULATION S)) LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the Prospectus) and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC OR WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC (TOGETHER, THE ISSUERS) IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia, (d) you have not duplicated, distributed, forwarded, transferred or otherwise transmitted the Prospectus or any other presentational or other materials concerning this offering (including electronic copies thereof) to any persons within the United States and agree that such materials shall not be duplicated, distributed, forwarded, transferred or otherwise transmitted by you, (e) you have made your own assessment concerning the relevant tax, legal and other economic considerations relevant to an investment in the securities of the Issuers and (f) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)

(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005. The materials relating to this offering (including the Prospectus) do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuers, Banco Santander, S.A., Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEA plc, RBC Europe Limited or The Royal Bank of Scotland plc (trading as NatWest Markets) nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, Banco Santander, S.A., HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEA plc, RBC Europe Limited or The Royal Bank of Scotland plc (trading as NatWest Markets).

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366923)

and

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366985)

and

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366894)

and

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 03600574)

£3,000,000,000

Euro Medium Term Note Programme

Under this £3,000,000,000 Euro Medium Term Note Programme (the **Programme**), Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (South Wales) plc (**WPD South Wales**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (West Midlands) plc (**WPDW**) and, together with WPDE, WPD South Wales and WPD South West, the **Issuers**, and each, an **Issuer** may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer of such Notes (the **Relevant Issuer**) and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £3,000,000,000 (or its equivalent in other currencies calculated as described in the amended and restated dealer agreement dated 15 September 2017, as amended or supplemented from time to time, the **Dealer Agreement**), subject to increase as described in this Prospectus.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Description of the Programme” and any additional Dealer appointed under the Programme from time to time by the Relevant Issuers (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Financial Conduct Authority (the **FCA**) in its capacity as competent authority (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to be admitted to trading on the London Stock Exchange's (the **London Stock Exchange**) regulated market.

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of the Notes will (other than in the case of Exempt Notes, as defined below) be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to the Notes to be admitted to the Official List and admitted to trading by the London Stock Exchange on the regulated market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service. In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**). In this Prospectus, any reference to Final Terms shall, in the case of Exempt Notes, be construed as a reference to the relevant Pricing Supplement.

The Programme provides that the Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets as may be agreed between the Relevant Issuer, the Note Trustee (as defined below) and the relevant Dealer(s). The Relevant Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any regulated or unregulated market (**Exempt Notes**). The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with Exempt Notes.

Each Series (as defined in “Overview of the Programme”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a **temporary Global Note**) or a permanent global note in bearer form (each a **permanent Global Note**). Notes in registered form will be represented by registered certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series (a **Global Certificate**). If the global notes (the **Global Notes**) and each a **Global Note** are stated in the applicable Final Terms to be issued in new global note (NGN) form they are intended to be eligible collateral for Eurosystem monetary policy and, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Registered Notes issued in global form will be represented by registered global certificates (**Global Certificates**). If a Global Certificate is held under the New Safekeeping Structure (the **NSS**) the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form (**Classic Global Notes** or **CGNs**) and Global Certificates which are not held under the NSS will be deposited on the issue date to of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the **Common Depositary**).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "Form of the Notes". The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued.

Each of the Issuers has been rated by Moody's Investors Service Limited (**Moody's**) and/or Standard & Poor's Credit Market Services Europe Limited (**S&P**). Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Moody's and S&P is included in the list of credit agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to "Credit ratings may not reflect all risks" in the Risk Factors section of this Prospectus.

Prospective investors should consider carefully the risks set forth under Risk Factors on pages 13 to 21 prior to making investment decisions with respect to the Notes.

Arranger
NatWest Markets

Dealers

Barclays
HSBC
Mizuho Securities
RBC Capital Markets

BofA Merrill Lynch
Lloyds Bank
MUFG
Santander Global Corporate Banking
NatWest Markets

The date of this Prospectus is 15 September 2017

IMPORTANT INFORMATION

This Prospectus comprises a base prospectus, in respect of all Notes other than Exempt Notes issued under the Programme, for the purposes of Article 5.4 of the Prospectus Directive. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area) and for the purpose of giving information with regard to the Relevant Issuer and the Notes which, according to the particular nature of the Relevant Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Relevant Issuer.

This Prospectus shall be read and construed in conjunction with any amendment or supplement hereto. Furthermore, in relation to any Series of Notes, this Prospectus should be read and construed together with the relevant Final Terms.

The Issuers have each undertaken to the Arranger and the Dealers in the Programme to comply with section 87G of the Financial Services and Markets Act 2000, as amended (the **FSMA**). Following the publication of this Prospectus, a supplement may be prepared by the Issuers and approved by the UK Listing Authority which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

Each Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of each of the Issuers (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus, is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuers are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The rating of certain Tranches of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation

will be disclosed in the Final Terms. Please also refer to “*Credit Ratings may not reflect all risks*” in the *Risk Factors* section of this Prospectus.

Copies of each set of Final Terms will be available from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Notes to be admitted to the Official List) will be available from the registered office of the Relevant Issuer.

Neither the Arranger, the Dealers nor the Note Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Note Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers in connection with the Programme.

No person is or has been authorised by the Issuers, any of the Arranger, the Dealers or the Note Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Arranger, any Dealer or the Note Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Arranger, any of the Dealers or the Note Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers, the Arranger, any of the Dealers or the Note Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Note Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (“**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Arranger, the Dealers and the Note Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Arranger, the Dealers or the Note Trustee which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom: see “Subscription and Sale”. Neither the Issuers, the Arranger nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a prospectus for such offer.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

All references in this document to **Sterling** and **£** refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, references to **euro** and **€** refer to the currency introduced at the start of the third stage of the Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, and references to **U.S. Dollars** and **\$** refer to the lawful currency for the time being of the United States of America.

In making an investment decision, investors must rely on their own examination of the Issuers and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

NOTES ISSUED BY AN ISSUER ARE OBLIGATIONS SOLELY OF THAT ISSUER AND ARE ISSUED WITHOUT ANY RECOURSE WHATSOEVER TO THE OTHER ISSUERS HEREUNDER.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the **Stabilisation Manager(s)**) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW OF THE PROGRAMME

The following description does not purport to be complete and is taken from, and is qualified in its entirety by (i) the remainder of this Prospectus and (ii) in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this Overview.

Issuers	Western Power Distribution (East Midlands) plc Western Power Distribution (South Wales) plc Western Power Distribution (South West) plc Western Power Distribution (West Midlands) plc
Description	Euro Medium Term Note Programme
Arranger	The Royal Bank of Scotland plc (trading as NatWest Markets)
Dealers	Banco Santander, S.A. Barclays Bank PLC HSBC Bank plc Lloyds Bank plc Merrill Lynch International Mizuho International plc MUFG Securities EMEA plc RBC Europe Limited The Royal Bank of Scotland plc (trading as NatWest Markets) and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale”).
Note Trustee	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent, Registrar, Transfer Agent and Calculation Agent	HSBC Bank plc
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a Series) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a Tranche) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.

Programme Size	Up to £3,000,000,000 (or its equivalent in other currencies, calculated as described in the Dealer Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution	Notes may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Relevant Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Issuer or the relevant Specified Currency.
Issue Price	Notes will be issued on a fully-paid basis and may be issued and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in “Form of the Notes”. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year, otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “Global Certificates”. A beneficial interest in a Global Certificate may be transferable for a Certificate in definitive form only in accordance with the rules and operating procedures of the relevant clearing system for the time being and in accordance with the detailed regulations in the Agency Agreement.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Relevant Issuer and the relevant Dealer.
Floating Rate Notes	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service at the relevant time. <p>The margin (if any) relating to such floating rate will be agreed between the Relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Interest Notes and Index Linked Redemption Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to the UK Retail Price Index. Index Linked Redemption Notes and Index Linked Interest Notes may also specify a Minimum Indexation Factor or a Maximum Indexation Factor.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest, a step-up in the interest rate after a certain date (or any combination of the foregoing).
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Interest Periods and Interest Payment Dates:	The Notes (other than the Zero Coupon Notes) will have such interest periods and interest payment dates as the Issuer and the relevant Dealer may agree in relation to a particular Tranche of Notes.
Redemption by the Relevant Issuer	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the Relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Relevant Issuer and the relevant Dealer.
Redemption at Option of the Noteholders on a Restructuring Event	The Notes issued may also be redeemed at the option of the Noteholders in certain circumstances following the occurrence of a Restructuring Event, as more particularly set out in Condition 6(g) (Redemption at the Option of the Noteholders on a Restructuring Event).
Redemption at the Option of Noteholders	If an Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption, as more particularly set out in Condition 6(f) (Redemption at the Option of Noteholders).
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Relevant Issuer and the relevant Dealer and as specified in the applicable Final Terms save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the date of issue of the Notes).
Taxation	All payments in respect of the Notes will be made without withholding or deduction for or on account of withholding taxes imposed by the United Kingdom, unless such deduction or withholding is required by law. In the event that any such withholding or deduction is required by law, the Relevant Issuer will, save in certain limited circumstances provided in Condition 10 (Taxation), be required to pay additional amounts that result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required.

Negative Pledge and Restriction on Distribution of Dividends	The terms of the Notes will contain a negative pledge provision and a restriction on the distribution of dividends as further described in Condition 4 (Negative Pledge and Restriction on Distribution of Dividends).
Cross Acceleration	The terms of the Notes will contain a cross acceleration provision which applies in respect of each Relevant Issuer (and not in respect of the other Issuers' obligations) as further described in Condition 12 (Events of Default).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 (Status)) unsecured obligations of the Relevant Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Relevant Issuer, from time to time outstanding.
Ratings	<p>Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Where Ratings Downgrade Rate Adjustment is specified as being applicable in the Final Terms, the Rate of Interest applicable to the Notes may be subject to adjustment upon a downgrading of the rating of the Notes as more fully described in the "Terms and Conditions of the Notes".</p> <p>Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.</p>
Listing and admission to trading	<p>Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to admit the Notes to trading on the Regulated Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Relevant Issuer and the relevant Dealer in relation to the Series.</p> <p>Notes which are neither listed nor admitted to trading may also be issued. The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with such Exempt Notes.</p>
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by English law.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom), and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale".

RISK FACTORS

In purchasing Notes, investors assume the risk that any of the Issuers may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in any of the Issuers becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuers may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuers' control. The Issuers have identified in this Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Noteholders may lose the value of their entire investment in certain circumstances.

Words and expressions defined in "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meaning in this section.

Factors that may affect each Issuer's ability to fulfil its obligations under the Notes under the Programme

Regulatory Risk

Under current regulation by the Great Britain Office of Gas and Electricity Markets (**Ofgem**), each Issuer's allowed revenue is determined by the distribution price controls set out under the terms of its distribution licence, and has typically been set by Ofgem every five years. However from 1 April 2015, the start of the new distribution price control review (**RIIO-ED1**), the period has been extended to eight years. Each Issuer has agreed the price control with Ofgem that covers the eight-year period from 1 April 2015 to 31 March 2023. Therefore, unless Ofgem reopens the price control, which the Issuers consider unlikely, there is a high degree of certainty as to the level of revenue permitted by regulation until 31 March 2023.

However, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Relevant Issuer to meet its respective payment obligations under the Notes. There can also be no assurance that net operating revenues generated by the Relevant Issuer will be sufficient to meet such payment obligations.

Macroeconomic and geopolitical risk

The "leave" vote in the United Kingdom's recent referendum on its membership of the European Union is likely to have a significant impact on general macro-economic conditions in the United Kingdom. As at the date of this Prospectus, each of the three major credit rating agencies has taken rating actions against the United Kingdom's sovereign credit ratings, with Standard & Poor's downgrading the United Kingdom by two notches from AAA to AA, Fitch imposing a one notch downgrade on the sovereign from AA+ to AA and Moody's changing the outlook in respect of the United Kingdom's existing Aa1 rating from stable to negative. In the immediate aftermath of the result, there were material devaluations in currency, with sterling depreciating to a 31-year low against the U.S. dollar. The performance of global financial markets has also been materially affected, with international equity markets being particularly impacted in the days following the referendum result. While the longer-term impact of the "Brexite" vote on global debt and equity markets, exchange rates and on the political and macro-economic climate generally is uncertain, it is likely that there will continue to be a period of volatility across international financial markets until the precise terms of the United Kingdom's exit

from the European Union become clear. As such, no assurance can be given that such matters would not adversely affect the fiscal, monetary and regulatory landscape to which the Group is subject, the ability of the Issuers to satisfy their respective obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

Distribution licence

Failure by an Issuer to comply with the terms of its distribution licence may lead to Ofgem making an enforcement order or levying a fine on it. In respect of each Issuer, Ofgem has the power to levy fines of up to 10 per cent. of turnover of that Issuer for any breach of its distribution licence. While the distribution licence of an Issuer may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings affecting such Issuer, it otherwise continues indefinitely until revoked following no less than 25 years' written notice.

Retail price index movements and cost-base variations

The annual revenues of each Issuer are adjusted by the published retail price index (**RPI**) in the United Kingdom. There is therefore a risk that each Issuer's cost base may increase at a faster rate than the RPI due to inflation as measured by the RPI being less than the rate of inflation on components of the licensee's cost base, even though Ofgem's price control does allow for some cost increases in excess of RPI. If that were to happen, each Issuer's profitability would be reduced and, if the differential between RPI-linked inflation and experienced operating cost inflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations. The effects of deflation would also be similar. The annual revenue of each Issuer may reduce at a greater degree to any deflationary impact on the component costs of the business. Again if this were to happen each Issuer's profitability would be reduced and, if the differential between RPI-linked deflation and experienced operating cost deflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations

Change to measure of inflation

On 8 January 2015, the UK Statistics Authority published a review recommending that the Office for National Statistics adopt the so-called "CPIH" measure of inflation (which, among other things, would include housing costs in its measure of inflation) as its main measure of inflation.

As at 31 March 2016, Ofgem has taken the decision to retain RPI as the inflation index; however if Ofgem decides to use the CPIH measure of inflation in the future, after the expiry of the RIIO-ED1 period, this could have an impact on the Issuers' revenue growth and, ultimately, on their respective businesses, financial positions and results of operations.

Supply Installation Regulations

Failure to comply with current supply installation regulations could lead to prosecution by the Department of Energy and Climate Change. While each Issuer has robust inspection and maintenance programmes in place to mitigate this risk, no assurance can be given that an Issuer will not be subject to such action in the future.

Health and Safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive (the **HSE**). Each Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees. However, assurance can be given that an Issuer will not be subject to HSE action in the future.

Ofgem Requirements

Each Issuer's activities are regulated by Ofgem. Failure to operate the network properly could lead to compensation payments or penalties or loss of incentive revenues under incentive arrangements. Failure to invest capital expenditure in line with agreed programmes could also lead to deterioration of the network and clawback of investment deferred if specified outputs are not met. While each Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over an eight-year period and reduce customer interruptions and customer minutes lost over the period, no guarantee can be given that these regulatory requirements will be met.

IT Systems

Each Issuer relies on a number of key IT systems for network operation. Failure to plan and execute suitable contingencies in the event of critical IT system breakdowns could result in poor customer service and/or an inability to operate the network effectively. Each Issuer has robust contingency plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given as to their effectiveness going forward.

Environment

Failure to comply with legislation in the event of an environmental incident could lead to prosecution by the Environment Agency. While each Issuer has robust operating, inspection and maintenance procedures in place to mitigate this risk, ongoing compliance cannot be guaranteed.

Storm Related Supply Interruptions

Failure to manage storm related supply interruptions adequately could lead to negative customer perception, adverse publicity and a potential financial impact on the business. Each Issuer has developed robust operating procedures to manage storm related supply interruptions and has, through independent review, achieved benchmark performance in previous incidents. However, no assurance can be given that satisfactory performance can be delivered in the future.

Pensions

Employees and former employees of the Issuers have pension entitlements from the Central Networks and Western Power Distribution Groups of the Electricity Supply Pension Scheme (the **WPD ESPS Schemes**, further details of which are set out in "*Description of the Issuers: Pensions – WPDE and WPDW and Pensions – WPD South West and WPD South Wales*") which are defined benefit pension schemes. Low interest rates, recent declines in financial markets and changes in demographic factors have produced actuarial deficits that have led to increased pension deficits and which required cash contributions in recent years. Any further adverse movements in interest rates, financial markets and demographic factors amongst others may lead to even higher pensions costs, cash contributions and scheme deficits in the future. As part of the electricity regulatory framework in the UK, Ofgem currently allows nearly all the costs of new benefit accrual in relation to distribution-related activities for both the WPD ESPS Schemes (which are closed to new members) and the Issuers' defined contribution scheme (the **Western Power Pension Scheme** or **WPPS**) to be charged to customers. Since 1 April 2015 cash contributions payable in respect of new benefit accrual in the WPD ESPS Schemes and the WPPS along with any cash contributions payable in respect of any incremental deficit arising from benefit accrual after 1 April 2010 have been benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient. In addition, Ofgem carries out reasonableness reviews of the WPD ESPS Schemes' valuation outcomes and their corresponding deficit repair payment schedules following successive triennial valuations. As a result, if Ofgem deem that certain pension deficit costs have not have been efficiently and/or reasonably incurred, they may further restrict the amount that can be recovered from customers in the future.

Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales

As required by Ofgem in its regulation of distribution network operators (**DNOs** and each a **DNO**), WPDE, WPDW, WPD South West and WPD South Wales are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. However, on a management and commercial level WPDE, WPDW, WPD South West and WPD South Wales are operated on a combined basis under the commercial brand “Western Power Distribution”. As a result, any event which has an adverse impact on Western Power Distribution may affect the management and delivery of operations for WPDE, WPDW, WPD South West and WPD South Wales.

Procurement Risk

In order to support its core business activities, it is necessary for each of the Issuers to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Although the Issuers routinely enter into long-term contracts to protect their commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuers. Whilst each Issuer receives protection from inflation through its price controls being linked to the retail price index, it will be exposed or benefit from any changes relative to inflation, either as a result of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Key management personnel and employees

Each Issuer's business depends upon the efforts and dedication of its senior management team. Competition for highly qualified personnel is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on each Issuer's business, financial condition and results of operations.

Each Issuer's future business success depends in part on its ability to continue to recruit, train, motivate and retain employees and on its ability to continue to employ creative employees and consultants. The loss of service of any key personnel, or an inability to attract and retain qualified employees and consultants, could have a material adverse impact on each Issuer's business, financial condition and results of operations.

Each Issuer's workforce is covered by collective bargaining agreements, which impacts its labour costs. The current collective bargaining agreements are renewed on a rolling basis and each Issuer cannot ensure that the collective bargaining agreements will continue without required amendments or that it will reach new agreements with the unions on satisfactory terms if this event occurs. Furthermore, work stoppages, strikes or similar industrial actions could adversely impact each Issuer's business, financial position and results of operations.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Notes may not be a suitable investment for all investors

Each potential investor in any Note must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the structure of the Notes

Early redemption by a Relevant Issuer at its option

A Relevant Issuer may, in the limited circumstances set out in Condition 6 (*Redemption, Purchase and Options*) and subject to the provisions as to minimum redemption price there set out, redeem the Notes prior to their stated maturity date. This early redemption feature may limit the market value of the Notes. The market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Notes may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Index Linked Interest Notes and Index Linked Redemption Notes

A Relevant Issuer may issue Notes with principal and/or interest determined by reference to the UK Retail Price Index (**RPI**). RPI may go down as well as up. Information on the RPI can be found at www.statistics.gov.uk.

Where the amount of interest payable on a Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period will reduce the amount of interest payable in respect of such Notes. In a deflationary environment, the annual interest received may be lower than the rate of interest specified in the applicable Final Terms.

Where the amount payable upon redemption of any Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period may reduce the amount to be repaid upon redemption of such Notes to less than the nominal amount of such Notes, unless the applicable Final Terms specify a minimum redemption amount which is equal to or higher than the nominal amount of such Notes.

The historical experience of RPI should not be viewed as an indication of the future performance of RPI during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to RPI and the suitability of such Notes in light of its particular circumstances.

There are particular risks associated with an investment in Index Linked Interest Notes and Index Linked Redemption Notes (**Indexed Notes**). In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Relevant Issuer's ability to convert the interest

rate will affect the secondary market in, and the market value of, such Notes since the Relevant Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Relevant Issuer. If the Relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing market rates.

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification, waiver or authorisation of any breach, or proposed breach, of any of the provisions of the Notes or the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Relevant Issuer, in the circumstances described in Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) (provided that, in each case, it is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders).

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Minimum Denominations

In relation to any issue of Notes which have denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be

traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system would not be able to sell such holding without first purchasing a principal amount of Notes at or in excess of the minimum specified denomination such that its holding amounts to a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of minimum specified denominations such that its holding amounts to a specified denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

Eligibility of the Notes for Eurosystem Monetary Policy

Those Notes issued in NGN form or to be held under the NSS are intended to be held in a manner which will allow Eurosystem eligibility. This means that such Notes are upon issue deposited with one of the international central securities depositories as common safekeeper and does not necessarily mean that such Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem (**Eurosystem Eligible Collateral**) either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the ECB from time to time. The Issuers do not give any representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue, or at any or all times during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

The Relevant Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Relevant Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;

- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Risks related to the market generally

Set out below is a brief description of certain material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Notes.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Relevant Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in those Notes

The ratings assigned to the Notes may not reflect the potential impact of all risks that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could affect the trading price for the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

As the Global Notes (or Global Certificates, as applicable) are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Relevant Issuer

The Notes will be represented by the Global Notes (or Global Certificates, as applicable) and, except in certain limited circumstances described in the permanent Global Note, investors will not be entitled to receive definitive Notes. The Global Notes (or Global Certificates, as applicable) will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes (or Global Certificates, as applicable). While the Notes are represented by the Global Notes (or Global Certificates, as applicable), investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Relevant Issuer will discharge its payment obligations under the Notes by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note (or Global Certificate, as applicable) must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes (or Global Certificates, as applicable).

Holders of beneficial interests in the Global Notes (or Global Certificates, as applicable) will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

SUPPLEMENTARY PROSPECTUSES

Following the publication of this Prospectus, a supplementary prospectus may be prepared by the Issuers and approved by the UK Listing Authority, which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplementary prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

The Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplementary prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the FCA shall be incorporated in, and form part of, this Prospectus:

- (a) The directors' report, the independent auditors report and financial statements set out at pages 23 to 64 of the annual report and financial statements of WPDE for the year ended 31 March 2016 (the **WPDE 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2016 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (b) The directors' report, the independent auditors' report and financial statements set out at pages 26 to 60 of the annual report and financial statements of WPDE for the year ended 31 March 2017 (the **WPDE 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2017 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (c) The directors' report, the independent auditors report and financial statements set out at pages 24 to 67 of the annual report and financial statements of WPDW for the year ended 31 March 2016 (the **WPDW 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2016 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (d) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 58 of the annual report and financial statements of WPDW for the year ended 31 March 2017 (the **WPDW 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2017 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (e) The directors' report, the independent auditors report and financial statements set out at pages 23 to 65 of the annual report and financial statements of WPD South West for the year ended 31 March 2016 (the **WPD South West 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2016 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (f) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 59 of the annual report and financial statements of WPD South West for the year ended 31 March 2017 (the **WPD South West 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2017 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (g) The directors' report, the independent auditors report and financial statements set out at pages 23 to 69 of the annual report and financial statements of WPD South Wales for the year ended 31 March 2016 (the **WPD South Wales 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South Wales 2016 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;

- (h) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 63 of the annual report and financial statements of WPD South Wales for the year ended 31 March 2017 (the **WPD South Wales 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South Wales 2017 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;
- (i) The Terms and Conditions set out on pages 39 to 73 of the prospectus dated 27 April 2011 and issued by WPDE and WPDW;
- (j) The Terms and Conditions set out on pages 52 to 86 of the prospectus dated 10 September 2013 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales;
- (k) The Terms and Conditions set out on pages 49 to 83 of the prospectus dated 14 April 2015 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales; and
- (l) The Terms and Conditions set out on pages 52 to 87 of the prospectus dated 9 September 2016 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales.

If the documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Prospectus for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

Copies of the documents incorporated by reference in this Prospectus may be viewed electronically and free of charge at www.westernpower.co.uk and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the Issuers, as incorporated by reference into this Prospectus in respect of the financial year ended 31 March 2016 and the financial year ended 31 March 2017, has been prepared in accordance with accounting principles generally accepted in the United Kingdom and the International Financial Reporting Standards (IFRS) adopted by the EU.

FORM OF THE NOTES

1 Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS respectively (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a Common Depository or if the Global Certificate is not held under the NSS, registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (**Alternative Clearing System**) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Whilst any Note is represented by a temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary Global Note if the temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent (**Certification**).

In respect of each Tranche initially represented by a temporary Global Note, on and after the date (the **Exchange Date**) which is 40 days after such temporary Global Note is issued, interests in such temporary Global Note will be exchangeable (free of charge) upon a request as described therein for either (i) interests in a permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Notes. The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the temporary Global Note for an interest in a permanent Global Note or for definitive Notes is improperly withheld or refused.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

3.3 Exchange for Definitive Notes

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If temporary Global Notes are exchangeable for Definitive Notes upon notice, then such Definitive Notes may only be issued to be held in clearing systems if in denominations equal to €100,000 (or equal to £100,000/\$200,000, as applicable) and integral multiples thereof.

3.4 Global Certificates

If the Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Relevant Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.4(i) or 3.4(ii) above, the registered holder has given the Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, **Definitive Notes** means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payment

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused by or on behalf of the Issuer. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made in relation to such nominal amount of the temporary Global Note with respect to which there has been Certification dated no earlier than such due date for payment.

All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent provided for in the Conditions. If the Global Note is in CGN form, a record of each payment so made

will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 9(e)(vii) (*Appointment of Agents*) and Condition 10(e) (*Payment by another Paying Agent*) will apply to the Definitive Notes only.

If the Global Note is in NGN form, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. For the purpose of any payments made in respect of a Global Note, "in the relevant place of presentation" shall be disregarded in the definition of "business day" set out in Condition 9(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Certificate. Such payments will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

4.3 Meetings

The holder of a Global Note or of the Notes represented by a Global Certificate or single Certificate shall (so long as at least the required proportion of the aggregate principal amount of the outstanding Notes is represented by such holder) be treated as being two voters for the purposes of forming a quorum. The holder of a Global Note or of the Notes represented by a Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

4.4 Cancellation

On cancellation of any Note represented by a permanent Global Note (other than upon its redemption), the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant clearing systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes shall, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the Issuer giving notice to the Issuing and Paying Agent, the Noteholders and the relevant clearing systems (or procuring that

such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the case of a partial exercise of an option, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced accordingly.

4.7 Noteholder's Option

Any option of the Noteholders provided for in the Conditions of any Notes may, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the holder of such permanent Global Note or Global Certificate by giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

4.8 Trustee's Powers

So long as any Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, in considering the interests of Noteholders the Note Trustee may consider the interests (either individual or by category) of its accountholders or participants with entitlements to any such Note as if such accountholders or participants were the holder(s) thereof.

4.9 Notices

Notices required to be given in respect of the Notes represented by a Global Note (or Global Certificate, as applicable) may be given by their being delivered (so long as such Global Note or Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or an alternative clearing system) to Euroclear, Clearstream, Luxembourg and/or such alternative clearing system, as the case may be, or otherwise to the holder of the Global Note (or Global Certificate, as applicable), rather than by publication as required by the Conditions.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended[, from 1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC ("**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/ [Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £3,000,000,000
Euro Medium Term Note Programme**

Part A Contractual Terms

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [●] September 2017 [and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus (the **Prospectus**)] for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at www.westernpower.co.uk] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the prospectus dated [●], which is incorporated by reference into the Prospectus dated [●] September 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/BC), as amended (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [●] September 2017 [and the supplement[s] dated [●] [and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Prospectus. The Prospectuses [and the supplement[s]] are available for viewing [at [*website of relevant Issuer*]] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable

Final Terms will also be published on the website of the London Stock Exchange:
www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

- 1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]
- 2 (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) Date on which the Notes will be consolidated and form a single Series [The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 25 below[, which is expected to occur on or about [●]]][Not Applicable]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]
- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
- (ii) Calculation Amount: (Applicable to Notes in definitive form) [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●] [Issue Date] [Not Applicable]
- 8 Maturity Date: [●]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[(further particulars specified below)]
- 10 Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●]per cent. of their nominal amount
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)
- 11 Change of Interest Basis or Redemption/ Payment Basis: [●] [Not Applicable]
- 12 Put/Call Options: [Investor Put]

	[Issuer Call] [(further particulars specified in paragraph[s] [20]/[21]/[22] below)] [Not Applicable] [●]
13 [Date approval by Committee of the Board of Directors for issuance of Notes obtained:]	[●]
Provisions Relating to Interest (if any) Payable	
14 Fixed Rate Note Provisions	[Applicable/Not Applicable]
(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/ quarterly/other (specify)] in arrear]
(ii) Interest Payment Date(s):	[●] in each year up to and including the Maturity Date/[●]
(iii) Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form)	[●] per Calculation Amount
(iv) Broken Amount(s): (Applicable to Notes in definitive form)	[[●] per Calculation Amount, payable on the Interest Payment Date falling on [●]/Not Applicable]
(v) Day Count Fraction:	[Actual/Actual (ISDA)] / [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] / [Eurobond Basis] [Actual/Actual ICMA] [30E/360 (ISDA)]
(vi) Determination Date(s):	[●] in each year
15 Floating Rate Note Provisions	[Applicable/Not Applicable]
(i) Specified Period(s)	[●]
(ii) Specified Interest Payment Dates:	[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iv) below]
(iii) First Interest Payment Date	[●]
(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(v) Additional Business Centre(s):	[●]
(vi) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
(viii) Screen Rate Determination:	[Applicable/Not Applicable]
- Reference Rate:	[●] month [LIBOR/EURIBOR]
- Interest Determination Date(s):	[●]
- Relevant Screen Page:	[●]

- Relevant Time: [●]
- (ix) ISDA Determination: [Applicable/Not Applicable]
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
- (x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

16 Zero Coupon Note Provisions

- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 6(b) (Early Redemption:) applies]
[Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

17 Index Linked Interest Note Provisions

- (i) Rate of Interest: [Applicable/Not Applicable]
[Fixed, calculated in accordance with paragraph 14 above]
[Floating, calculated in accordance with paragraph 15 above]
- (ii) Minimum Indexation Factor: [Not Applicable][●]

- | | |
|----------------------------------|---|
| (iii) Maximum Indexation Factor: | [Not Applicable][●] |
| (iv) Base Index Figure: | [●] |
| (v) Limited Indexation Month(s): | [●]/[Not Applicable] |
| (vi) Reference Gilt: | [●] per cent. Index-Linked Treasury Stock due [●] |
| (vii) Index Figure applicable | [3][8] months lag |

**18 Ratings Downgrade Rate Adjustment
Provisions Relating to Redemption**

[Applicable/Not Applicable]

19 Index Linked Redemption Provisions	[Applicable/Not Applicable]
(i) Minimum Indexation Factor:	[Not Applicable][●]
(ii) Maximum Indexation Factor:	[Not Applicable][●]
(iii) Base Index Figure:	[●]
(iv) Reference Gilt:	[●] per cent. Index-Linked Treasury Stock due [●]
(v) Index Figure applicable	[3][8] months lag
(vi) Redeemable in part:	[Applicable/Not Applicable]
(1) Minimum Redemption Amount:	[●]
(2) Maximum Redemption Amount:	[●]
20 Issuer Call	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s)	[[●] per Calculation Amount]
(iii) Redeemable in part:	[Applicable/Not Applicable]
(1) Minimum Redemption Amount:	[●]
(2) Maximum Redemption Amount:	[●]
21 Investor Put	[Applicable (Condition [6(f)] (<i>Redemption at the Option of Noteholders</i>) applies)/Not Applicable]
(i) Optional Redemption Date(s):	[[●]
(ii) Notice Period:	[●]/[Refer to Condition 6(f)] (<i>Redemption at the Option of Noteholders</i>)
(iii) Optional Redemption Amount(s):	[[●] per Calculation Amount]
22 [Restructuring Put Option	[Applicable [6(g)] (<i>Redemption at the Option of the Noteholders on a Restructuring Event</i>) applies]/Not Applicable]
(i) Optional Redemption Amount(s):	[[●] per Calculation Amount]
23 Final Redemption Amount:	[[●] per Calculation Amount]
	<i>(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)</i>
24 Early Redemption Amount payable on redemption for taxation reasons or on event of default	[[●] per Calculation Amount]
	<i>(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)</i>

General Provisions Applicable to the Notes

- 25 Form of Notes: [Bearer/Registered]
- (i) if issued in Bearer form: [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]
- (ii) if issued in registered form: [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]
- [Global Certificate registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [1] days' notice in the circumstances specified in the Global Certificate]
- New Global Note/NSS: [Yes] [No]
- 26 Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[●]]
- 27 Talons for future Coupons to be attached to Definitive Notes: [*Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made*]/[No]

THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

[Western Power Distribution (East Midlands) plc]
 [Western Power Distribution (West Midlands) plc]
 [Western Power Distribution (South West) plc]
 [Western Power Distribution (South Wales) plc]

By:

Part B
Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [●].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from [●].]

[Not Applicable]/[●]

(ii) Estimate of total expenses related to admission to trading:

[●]

2 Ratings

Ratings:

The Notes to be issued [have been] [are expected to be] rated:

[●] by [●]

[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

(i) [Reasons for the offer

[●]

(ii) Estimated net proceeds:

[●]

(iii) Estimated total expenses:

[●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield:

[●]

6 Operational Information

(i) ISIN Code:

[●]

(ii) Common Code:

[●]

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):

[Not Applicable]/[●]

(iv) Delivery:

Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any):

[●]

- (vi) [Intended to be held in a manner which would allow Eurosystem eligibility:
- [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (**ICSD**) as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the **ECB**) being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7 Distribution

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names and addresses of Managers): [Not Applicable/give names, addresses]
(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)
- (iii) Date of Dealer Agreement: []
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/give name]
- (v) If non-syndicated, name and address of relevant Dealer: [Not Applicable/give name and address]
- (vi) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(N.B. If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended, from[1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[Date]

**[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/ [Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]
(the "Issuer")**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £3,000,000,000
Euro Medium Term Note Programme**

Part A Contractual Terms

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Prospectus dated [●] [as supplemented by the supplement[s] dated [date[s]]] (the **Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus may be obtained from [address].

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus [dated [original date] which are incorporated by reference in the Prospectus].

The Notes offered pursuant to this Pricing Supplement are offered pursuant to an exemption to Prospectus Directive (Directive 2003/71/BC), as amended. The UK Listing Authority has neither approved nor reviewed information contained in the Prospectus or this Pricing Supplement relating to the Notes offered.

- 1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]
- 2 (i) Series Number: [●]
- (ii) Tranche Number: [●]

(iii) Date on which the Notes will be consolidated and form a single Series	[The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below[, which is expected to occur on or about [●]]][Not Applicable]
3 Specified Currency or Currencies:	[●]
4 Aggregate Nominal Amount:	
(i) Series:	[●]
(ii) Tranche:	[●]
5 (i) Issue Price of Tranche:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6 (i) Specified Denominations:	[●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
(ii) Calculation Amount: (Applicable to Notes in definitive form)	[●]
7 (i) Issue Date:	[●]
(ii) Interest Commencement Date:	[●] [Issue Date] [Not Applicable]
8 Maturity Date:	[●]
9 Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/[●]] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [(further particulars specified below)]
10 Redemption Basis:	[Redemption at par] [Index Linked Redemption] [●]
11 Change of Interest Basis or Redemption/ Payment Basis:	[●] [Not Applicable]
12 Put/Call Options:	[Investor Put] [Restructuring Put Option] [Issuer Call] [(further particulars specified below)]
13 Status of the Notes:	Senior
14 [Date approval by Committee of the Board of Directors for issuance of Notes obtained:]	[●]
Provisions Relating to Interest (if any) Payable	
15 Fixed Rate Note Provisions	[Applicable/Not Applicable]

(i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/ quarterly/other (specify)] in arrear]

(ii) Interest Payment Date(s): [●] in each year up to and including the Maturity Date/[●]

- (iii) Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form) [●] per Calculation Amount
- (iv) Broken Amount(s): (Applicable to Notes in definitive form) [[●] per Calculation Amount, payable on the Interest Payment Date falling on [●]/Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]
- (vi) Determination Date(s): [●] in each year

16 Floating Rate Note Provisions

- [Applicable/Not Applicable]
- (i) Specified Period(s) [●]
- (ii) Specified Interest Payment Dates: [●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iv) below]
- (iii) First Interest Payment Date [●]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (v) Additional Business Centre(s): [●]
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (viii) Screen Rate Determination: [Applicable/Not Applicable]
 - Reference Rate: [●] month [LIBOR/EURIBOR/[●]]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
 - Relevant Time: [●]
- (ix) ISDA Determination: [Applicable/Not Applicable]
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
- (x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

(xiv) Day Count Fraction:	[Actual/Actual (ISDA)] / [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] / [Eurobond Basis] [Actual/Actual ICMA] [30E/360 (ISDA)]
17 Zero Coupon Note Provisions	[Applicable/Not Applicable]
(i) Accrual Yield:	[●] per cent. Per annum
(ii) Reference Price:	[●]
(iii) Any other formulas/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes	[●]
(iv) Day Count Fraction in relation to Early Redemption Amounts:	[Condition 6(b) (Early Redemption:) applies] [Actual/Actual (ISDA)] / [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] / [Eurobond Basis] [Actual/Actual ICMA] [30E/360 (ISDA)]
18 Index Linked Interest Note Provisions	[Applicable/Not Applicable]
(i) Index/Formula:	UK Retail Price Index
(ii) Rate of Interest:	[Fixed, calculated in accordance with paragraph 15 above] [Floating, calculated in accordance with paragraph 16 above]
(iii) Minimum Indexation Factor:	[Not Applicable][●]
(iv) Maximum Indexation Factor:	[Not Applicable][●]
(v) Base Index Figure:	[●]
(vi) Limited Indexation Month(s):	[●]/[Not Applicable]
(vii) Reference Gilt:	[●] per cent. Index-Linked Treasury Stock due [●]
(viii) Index Figure applicable	[3][8] months lag
19 Ratings Downgrade Rate Adjustment Provisions Relating to Redemption	[Applicable/Not Applicable]
20 Index Linked Redemption Provisions	[Applicable/Not Applicable]
(i) Index/Formula:	UK Retail Price Index
(ii) Minimum Indexation Factor:	[Not Applicable][●]
(iii) Maximum Indexation Factor:	[Not Applicable][●]

- | | |
|------------------------------|---|
| (iv) Base Index Figure: | [●] |
| (v) Reference Gilt: | [●] per cent. Index-Linked Treasury Stock due [●] |
| (vi) Index Figure applicable | [3][8] months lag |
| (vii) Redeemable in part: | [Applicable/Not Applicable] |

(1) Minimum Redemption Amount:	[●]
(2) Maximum Redemption Amount:	[●]
21 Issuer Call	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s):	[[●] per Calculation Amount]
(iii) Redeemable in part:	[Applicable/Not Applicable]
(iv) Minimum Redemption Amount:	[●]
(v) Maximum Redemption Amount:	[●]
22 Investor Put	[Applicable (Condition [6(f) (<i>Redemption at the Option of Noteholders</i>)]applies)/Not Applicable]
(i) Optional Redemption Date(s):	[[●]
(ii) Notice Period:	[●]/[Refer to Condition 6(f) (<i>Redemption at the Option of Noteholders</i>)]
(iii) Optional Redemption Amount(s):	[[●] per Calculation Amount]
23 [Restructuring Put Option]	[Applicable [6(g) (<i>Redemption at the Option of the Noteholders on a Restructuring Event</i>) applies]/Not Applicable]
(i) Optional Redemption Date(s):	[On the Put Date (as specified in the relevant Put Event Notice) (where Condition (6(g) (<i>Redemption at the Option of the Noteholders on a Restructuring Event</i>)))]
(ii) Notice Period:	[●] (in accordance with Condition 18 (<i>Notices</i>))
(iii) Optional Redemption Amount(s):	[[●] per Calculation Amount]
24 Final Redemption Amount:	[[●] per Calculation Amount]
25 Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required):	[[●] per Calculation Amount]
General Provisions Applicable to the Notes	
26 Form of Notes:	[Bearer/Registered]
(i) if issued in Bearer form:	[Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]
	[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]
	[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

(ii) if issued in registered form:

[Global Certificate registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [●] days' notice in the circumstances specified in the Global Certificate]

New Global Note/NSS:

[Yes] [No]

27 Additional Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable/[●]]

28 Talons for future Coupons to be attached to Definitive Notes:

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

29 Other terms or special conditions:

[Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

[Western Power Distribution (East Midlands) plc]

[Western Power Distribution (West Midlands) plc]

[Western Power Distribution (South West) plc]

[Western Power Distribution (South Wales) plc]

By:

Other Information

1 Listing and Admission to Trading

- (i) Listing and admission to trading: [Not Applicable]/[●]
- (ii) Estimate of total expenses related to [●]
admission to trading:

2 Ratings

Ratings: The Notes to be issued [have been] [are expected to be] rated:
[●] by [●]
[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

[Reasons for the offer [●]
Estimated net proceeds: [●]
Estimated total expenses: [●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield: [●]

6 [Performance of Index and Other Information Concerning the Underlying (Indexed Notes only)]

- (i) Name of underlying index: U.K. Retail Price Index (RPI) (all items) published by the Office of National Statistics
- (ii) Information about the Index, its volatility and past and future performance can be obtained from: Information on RPI can be found at www.statistics.gov.uk

7 Operational Information

- (i) ISIN Code: [●]
- (ii) Common Code: [●]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable]/[●]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [●]

- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]
- [Note that whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8 Distribution

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers [Not Applicable/[●]]
- (iii) Date of Subscription Agreement [Not Applicable/[●]]
- (iv) Stabilisation Manager(s) (if any) [Not Applicable/[●]]
- (v) If non-syndicated, name of relevant Dealer: [●]
- (vi) U.S. Selling Restrictions [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
- (N.B. If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (as defined below) are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated on 9 September 2016 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales** and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

Notes means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be

treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

2. No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f) (*Redemption at the Option of Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may

specify. In this Condition 2(d) (*Delivery of New Certificates*), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes and the Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) direct, general, unconditional and unsecured obligations of the Issuers and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuers under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuers present and future.

4. Negative Pledge and Restriction on Distribution of Dividends

- (a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer will ensure that no Relevant Indebtedness (as defined below) of the Relevant Issuer and no guarantee by the Relevant Issuer of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Relevant Issuer unless the Relevant Issuer, before or at the same time as the creation of the Security Interest, takes any and all action necessary to ensure that:
 - (i) all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Note Trustee; or
 - (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed either (A) as the Note Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Restriction on distribution of dividends:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer shall not at any time declare or make a distribution (as defined in Section 1000 of the Corporation Tax Act 2010) or grant a loan or any other credit facility to

any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Relevant Issuer, has been provided to the Note Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Note Trustee without further enquiry or evidence and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties whether or not addressed to each such party.

(c) **Definitions:** In this Condition:

borrowed money means (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

Net Debt at any time, means the aggregate amount of all indebtedness for borrowed money of the Relevant Issuer at such time less the aggregate of:

- (i) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;
- (ii) cash in hand;
- (iii) the lower of book and market value (calculated, where relevant, by reference to their bid price) of gilts issued by the United Kingdom Government; and
- (iv) subordinated intra-group items, loans from Affiliates (as defined in Condition 7 below) and shareholder loans,

in each case beneficially owned by the Relevant Issuer and in each case so that no amount shall be included or excluded more than once.

Regulatory Asset Base means in respect of any year, the regulatory asset base of the Relevant Issuer most recently published and as last determined and notified to the Relevant Issuer in respect of such year by the Great Britain Office of the Gas and Electricity Markets (**Ofgem**) or any successor of Ofgem (interpolated as necessary and adjusted for additions to the regulatory asset base of the Relevant Issuer and adjusted as appropriate for out-term inflation/regulatory depreciation in respect of the Relevant Issuer).

Relevant Indebtedness means:

- (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market;
- (ii) monies borrowed or raised from, or any acceptance credit opened by, a bank, building society or other financial institution; and
- (iii) any leasing or hire purchase agreement which would be treated as a finance lease in the accounts of the relevant person.

Any reference to an obligation being “guaranteed” shall include a reference to an indemnity being given in respect of that obligation.

5. Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*). Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation

Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the relevant Final Terms
- (y) the Designated Maturity is a period specified in the relevant Final Terms and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Final Terms.

- (y) if the Relevant Screen Page is not available, or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time),

or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Relevant Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be zero coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Early Redemption*)).
- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue

to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).

(e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**

- (i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each denomination of the Notes for the relevant Interest Accrual Period, Interest Period or Interest Payment Date calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation and/or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period, Interest Period or Interest Payment Date and, if required, the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Relevant Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the

rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Linear Interpolation:** Where “Linear Interpolation” is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however* that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.
- (i) **Determination or Calculation by Note Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, or take any action that it is required to do pursuant to these Conditions, the Calculation Agent shall forthwith notify the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent and the Note Trustee (whether or not it receives such notice) shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**) and a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in each (if any) Business Centre.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **Actual/365 (Fixed)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if **Actual/365 (Sterling)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Period Date falling in a leap year, 366
- (iv) if **Actual/360** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360
- (v) if **30/360, 360/360** or **Bond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30

- (vi) if **30E/360** or **Eurobond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_2 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30

- (viii) if **Actual/Actual-ICMA** is specified in the Final Terms,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date and

Determination Date means the date(s) specified as such in the Final Terms or, if none is so specified, the Interest Payment Date(s)

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

Interest Amount means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

Interest Commencement Date means the Issue Date or such other date as may be specified in the Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

Interest Period means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

Interest Period Date means each Interest Payment Date unless otherwise specified in the Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc..

Rate of Interest means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

Reference Rate means the rate specified as such in the Final Terms (being either LIBOR or EURIBOR).

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms.

Specified Currency means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Relevant Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) **Adjustment to Rate of Interest:** If, in respect of a Tranche of Notes, **Ratings Downgrade Rate Adjustment** is specified in the relevant Final Terms as being applicable, the Rate of Interest specified in the Final Terms (the **Initial Rate of Interest**) and payable on the Notes will be subject to adjustment from time to time in the event of a Rating Change or Rating Changes, within the period from and including the Issue Date of such Tranche of Notes to and including the date falling 18 months from such Issue Date (the **Rating Change Period**, with the final date of such Rating Change Period being the **Rating Change Period End Date**), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

- (i) the lowest Rating then assigned to the Notes is A- or A3 or higher, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest;
- (ii) the lowest Rating then assigned to the Notes is BBB+ or Baa1, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.25 per cent. per annum;
- (iii) the lowest Rating then assigned to the Notes is BBB or Baa2, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.50 per cent. per annum; or
- (iv) the lowest Rating then assigned to the Notes is BBB- or Baa3 or lower, or if such Ratings are withdrawn by both of Moody's Investor Services Limited and Standard & Poor's Credit Market Services Europe Limited, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.75 per cent. per annum

in each case, the **Revised Rate of Interest**.

Following each Rating Change the Relevant Issuer will notify the Noteholders of the Revised Rate of Interest following such Rating Change in accordance with the provisions of Condition 18 (*Notices*) as soon as reasonably practicable after the occurrence of the Rating Change. If, in respect of an Interest Period (the **Relevant Interest Period**), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(l) during the Rating Change Period, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Initial Interest Rate plus 0.75 per cent. per annum. For the avoidance of doubt, the rate of interest payable on the Notes from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Notes shall be determined in accordance with the Ratings assigned to the Notes as of the Rating Change Period End Date.

Rating Agency means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors or Moody's Investors Service Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee; and

Rating Change means the public announcement by any Rating Agency assigning a credit rating to the Notes of a change in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied.

6. Redemption, Purchase and Options

(a) Final Redemption:

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) Early Redemption:

(i) Zero Coupon Notes:

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the **Amortised Face Amount** of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c) (Zero Coupon Notes).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Note) or at any time (if this Note is neither a Floating Rate Note nor an Indexed Note), on

giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 18 (Notices) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (Early Redemption) above) (together with interest accrued to the date fixed for redemption), if (i) the Relevant Issuer satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Relevant Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c) (Redemption for Taxation Reasons), the Relevant Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Relevant Issuer stating that the obligation referred to in (i) above cannot be avoided by the Relevant Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

- (d) **Redemption for Indexation Reasons:** Upon the occurrence of any Index Event (as defined below), the Relevant Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Note Trustee and the holders of the Indexed Notes in accordance with Condition 18 (*Notices*), redeem all (but not some only) of the Indexed Notes of all Tranches on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(a) (*Application of the Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Indexed Notes may be redeemed in these circumstances unless all the other Tranches of Indexed Notes linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Relevant Issuer shall provide to the Note Trustee a certificate signed by two directors of the Relevant Issuer (a) stating that the Relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Relevant Issuer so to redeem have occurred and (b) confirming that the Relevant Issuer will have sufficient funds on such Interest Payment Date to effect such redemption. The Note Trustee shall be entitled to rely on such certificate without liability to any person.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

Index Event means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(b)(ii) (*Delay in publication of Index*) and the Note Trustee has been notified by the Issuing and Paying Agent or Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Relevant Issuer and such circumstances are continuing.

- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note

Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

- (f) **Redemption at the Option of Noteholders:** If Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) (specified in the Final Terms) at its Optional Redemption Amount (specified in the Final Terms) together with interest accrued up to (and including) the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

(g) **Redemption at the Option of the Noteholders on a Restructuring Event**

- (i) If Restructuring Put Option is specified in the Final Terms (and for the avoidance of doubt, the Investor Put is also specified in the Final Terms), and:
- (a) if, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):
 - (A) an independent financial adviser (as described below) shall have certified in writing to the Note Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or

- (B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Relevant Issuer at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(g)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Note Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) or the holder shall have given notice under Condition 6(f) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date..

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five

years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time, with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(g)(i)(b)(B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(f) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(f) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(f) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.
- (iv) For the purposes of these Conditions:
 - (a) **Distribution Services Area** means, in respect of a Relevant Issuer, the area specified as such in the distribution licence granted to it on 1 October 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).
 - (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.

- (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.
- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal), or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.
- (f) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of a Relevant Issuer having an initial maturity of five years or more which is rated by a Rating Agency.
- (g) **Restructuring Event** means the occurrence of any one or more of the following events:
- (A) (i) the Secretary of State for Business, Innovation and Skills (or any successor) giving the Relevant Issuer written notice of any revocation of its Distribution Licence; or
- (ii) the Relevant Issuer agreeing in writing with the Secretary of State for Business, Innovation and Skills (or any successor) to any revocation or surrender of its Distribution Licence; or
- (iii) any legislation (whether primary or subordinate) being enacted which terminates or revokes the Distribution Licence of the Relevant Issuer;
- except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Relevant Issuer or a wholly-owned subsidiary of the Relevant Issuer where such subsidiary at the time of such grant either executes in favour of the Note Trustee an unconditional and irrevocable guarantee in respect of all Notes issued by the Relevant Issuer in such form as the Note Trustee may approve or becomes the primary obligor under the Notes issued by the Relevant Issuer in accordance with Condition 13(c) (*Substitution*); or
- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which a Relevant Issuer is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Issuer have certified in good faith to the Note Trustee that the modified terms and conditions are not materially less favourable to the business of that Relevant Issuer;

- (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 (as amended by the Utilities Act 2000) (as this may be amended from time to time) unless two directors of such Relevant Issuer have certified in good faith to the Note Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of that Relevant Issuer.
- (h) **Restructuring Period** means:
 - (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
 - (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Relevant Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and (cc) the date on which a Negative Certification shall have been given to the Note Trustee in respect of that Restructuring Event.
- (i) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*), does not announce or publicly confirm or inform the Relevant Issuer in writing at its request (which it shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade, was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Relevant Issuer undertakes to contact the relevant Rating Agency immediately following that reduction, or where applicable the refusal to assign a rating of at least investment grade, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Relevant Issuer shall notify the Note Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

- (h) **Purchases:** The Relevant Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Relevant Issuer or its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in

each case, if so surrendered, shall, together with all Notes redeemed by the Relevant Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Relevant Issuer in respect of any such Notes shall be discharged.

7. Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specifies that the Notes are Index Linked Interest Notes and/or Index Linked Redemption Notes.

(a) Application of the Index Ratio

Each payment of interest in respect of the Index Linked Interest Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

Each payment of principal in respect of the Index Linked Redemption Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

(b) Changes in Circumstances Affecting the Index

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “Index” and “Index Figure” in Condition 8 (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **relevant month**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Notes is due (the **date for payment**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as an Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty’s Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser (and approved by the Note Trustee); or (1) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(b)(i) (*Change in base*)) before the date for payment.

(c) **Application of Changes**

Where the provisions of Condition 7(b)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(b)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Note is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(b)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(d) **Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) when any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Note Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Noteholders, the Note Trustee will give written notice of such occurrence to the Relevant Issuer, and the Relevant Issuer and the Note Trustee together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Relevant Issuer and the Note Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Relevant Issuer and the Note Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Note Trustee (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Relevant Issuer and the Note Trustee in connection with such appointment shall be borne by the Relevant Issuer.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Relevant Issuer and the Note Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall

be deemed amended in such manner as the Note Trustee and the Relevant Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Relevant Issuer, the other Secured Creditors, the Note Trustee and the Noteholders, and the Relevant Issuer shall give notice to the Noteholders in accordance with Condition 18 (*Notices*) of such amendments as promptly as practicable following such notification.

8. Definitions

In these Conditions:

Affiliate means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, **control** means control as defined in the Companies Act;

Base Index Figure means (subject to Condition 7(b)(i) (Change in base)) the base index figure as specified in the relevant Final Terms;

Calculation Date means any date when a payment of interest or, as the case may be, principal falls due;

Capital and Reserves means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Relevant Issuer; and
- (ii) the total of the capital, revaluation and revenue reserves of the Group (as defined below), including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to outside shareholders in Subsidiary Undertakings (as defined below) and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 2006, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Relevant Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

consolidated means in relation to the financial statements and accounts of the Relevant Issuer and/or the Group, those statements and accounts as consolidated under International Financial Reporting Standards, provided that if such consolidated accounts are not prepared, it shall mean the non-consolidated financial statements and accounts of the Relevant Issuer prepared in accordance with generally accepted accounting principles in the United Kingdom.

Distribution Licence means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989, as amended from time to time.

Group means the Relevant Issuer and, if and to the extent it has any, its Subsidiary Undertakings and “member of the Group” shall be construed accordingly.

Index or **Index Figure** means, in relation to any relevant month (as defined in Condition 7(b)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(b)(i) (Change in base), the UK Retail Price Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “3 months lag” is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m_3} + \frac{(\text{Day of Calculation Date 1})}{(\text{Days in Month of Calculation Date})} (\text{RPI}_{m_2} + \text{RPI}_{m_3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

IFA means the Index Figure applicable;

RPI_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “8 months lag” is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified

in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

9. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a

Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 10 (Taxation)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the Agency Agreement. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuers and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuers reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuers shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and unexchanged Talons:**
 - (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Indexed Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing

Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 11 (*Prescription*)).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or Indexed Notes, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as “**Additional Financial Centre(s)**” in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or

deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
- (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or

- (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or
- (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
- (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,

provided that in the case of paragraph (ii) the Note Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

- (ix) **Definitions:** in this Condition:

Excluded Subsidiary means any Subsidiary (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) of the Relevant Issuer:

- (A) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (B) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (B) (II). of the definition of Non-recourse Indebtedness below; and
- (C) which has been designated as such by the Relevant Issuer by written notice to the Note Trustee, provided that the Relevant Issuer may give written notice to the Note Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

Non-recourse Indebtedness means any indebtedness for borrowed money:

- (A) which is incurred by an Excluded Subsidiary; or
- (B) in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - I. recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; and/or

- II. recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over any such asset or assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
- III. recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

Principal Subsidiary at any time shall mean each Subsidiary of the Relevant Issuer (in each case not being an Excluded Subsidiary or any other Subsidiary of the Relevant Issuer, as the case may be, whose only indebtedness for borrowed money is Non-recourse Indebtedness):

- (A) whose (a) profits on ordinary activities before tax or (b) gross assets, in each case attributable to the Relevant Issuer represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries) and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors; or
- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Relevant Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (B), upon publication of its next audited financial statements (but without prejudice to the provisions of sub-paragraph (A) above) but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Relevant Issuer on or at any time after the date on which such audited financial statements have been published by virtue

of the provisions of sub-paragraph (A) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (B).

A certificate by two directors of the Relevant Issuer that, in their opinion, a Subsidiary of the Relevant Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Note Trustee without further enquiry or evidence and the Note Trustee will not be responsible or liable for any loss occasioned by acting on such a certificate and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties, whether or not addressed to each such party.

13. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders of one or more Series of Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the affected Series of Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing one more than 50 per cent. in nominal amount of the affected Series of Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the affected Series of Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

- (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
- (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;
- (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;
- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum;
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;
- (vi) to vary the currency or currencies of payment or denomination of the Notes;
- (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Relevant Issuer, whether or not those rights arise under the Trust Deed; or
- (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the affected Series of Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be

binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of affected Series of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of the Trust Deed:** The Note Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) if in the opinion of the Note Trustee the interests of the Noteholders will not be materially prejudiced thereby, to any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions, or determine that any Event of Default shall not be treated as such. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Note Trustee may agree, subject to the execution of a deed or undertaking supplemental to the Trust Deed in form and manner satisfactory to the Note Trustee and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Relevant Issuer's successor in business in place of the Relevant Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Note Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Relevant Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.
- (e) **Modifications**

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

14. Enforcement

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Events of Default*) where the Note Trustee has certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Relevant Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution

or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Relevant Issuer unless the Note Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Note Trustee

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuers and any entity related to the Issuers without accounting for any profit.

The Note Trustee may rely without liability on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuers, the Note Trustee and the Noteholders.

16. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Relevant Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Relevant Issuer on demand the amount payable by the Relevant Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Relevant Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

17. Further Issues

The Relevant Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects save for the Issue Date, Interest Commencement Date and Issue Price) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such different terms as the Relevant Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further issues may be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

18. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (**Proceedings**) may be brought in such courts. The Issuers have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Relevant Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUERS

The four Issuers, WPDE, WPDW, WPD South West and WPD South Wales are the regulated monopoly distributors of electricity in the Midlands area of England, the South West of England and South Wales. All four companies are indirectly wholly owned subsidiaries of Western Power Distribution Limited, (registered number 09223384) (**WPD**, together with WPD Distribution Network Holdings Ltd (registered number 08857746), WPDE, WPDW, WPD South West and WPD South Wales, the **WPD Group**). The WPD Group is a wholly owned subsidiary of PPL WPD Ltd whose registered number is 09172857 and whose registered office is Avonbank, Feeder Road, Bristol, BS2 0TB. The ultimate parent of PPL WPD Limited is PPL Corporation (**PPL**), an energy and utility holding company based in Pennsylvania, USA. The WPD Group has been wholly-owned by PPL since 6 September 2002.

Each of the four Issuers is regulated by the Great Britain Office of Gas and Electricity Markets (**Ofgem**).

Key Strengths

The Issuers believe they have possession of key operational and credit strengths outlined below. The offer of the Notes presents an opportunity to invest in an investment grade regulated UK electricity distribution network business that benefits from:

- A stable, well established transparent regulatory regime;
- Strong and predictable operating cash flow;
- No volume risk;
- Inflation linked earnings and asset base;
- Positive cash flow generation before financing;
- Industry leading delivery of Ofgem output targets; and
- Accurate forecasting and efficient delivery of investment programmes.

Description of WPDE

History

WPDE is the regulated monopoly distributor of electricity in the East Midlands area of England. WPDE was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDE is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDE joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDE has no subsidiary companies.

WPDE was formerly known as Central Networks East plc and changed its name to Western Power Distribution (East Midlands) plc on 1 April 2011.

Description of Principal Activity

WPDE is one of the 14 regulated electricity distribution network operators (**DNO**) in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute

electricity in the East Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers within its regulated area.

Its network covers approximately 16,000 square kilometres, extending from the Lincolnshire coast to the outskirts of Coventry, and from Milton Keynes in the south to the Derbyshire Peak District in the north. As a result, it serves a diverse customer base including large urban areas such as Nottingham, Derby, Northampton and Leicester, as well as rural communities.

As at 31 March 2017, WPDE distributed electricity to over 2.6 million customers through approximately 73,000 kilometres of network.

Western Power Distribution (East Midlands) plc Distribution Service Area map



Description of WPDW

WPDW is the regulated monopoly distributor of electricity in the West Midlands area of England. WPDW was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDW is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDW joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDW has no subsidiary companies.

WPDW was formerly known as Central Networks West plc and changed its name to Western Power Distribution (West Midlands) plc on 1 April 2011.

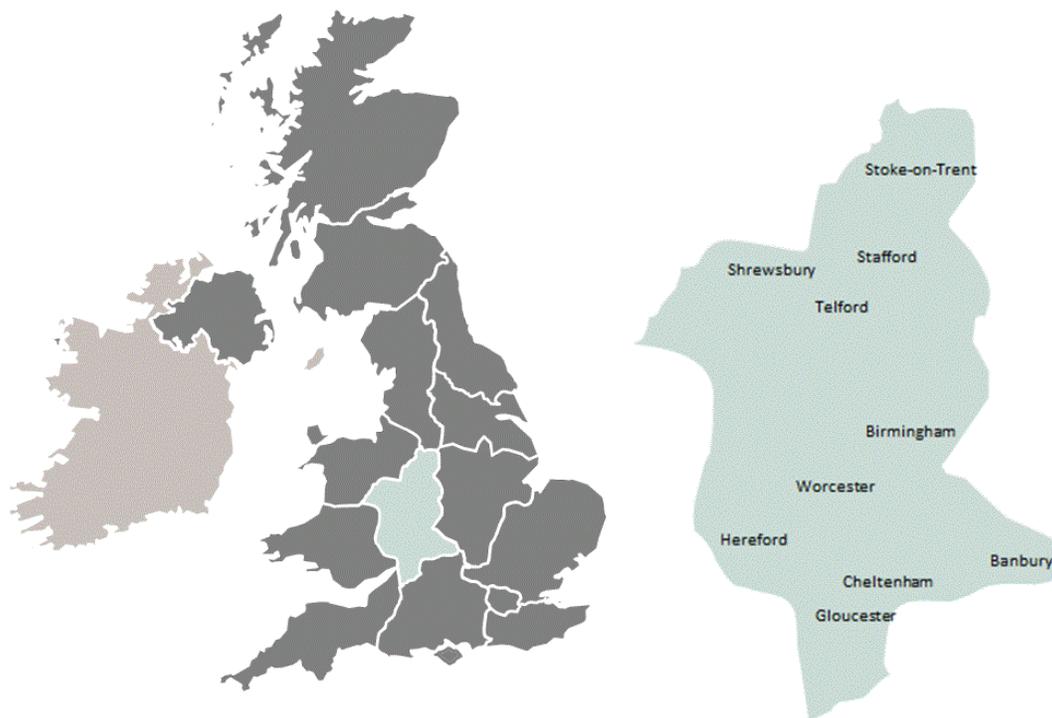
Description of Principal Activity

WPDW is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the West Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 13,300 square kilometres, extending from the outskirts of Bristol in the South to Staffordshire in the North and from approximately the M6 motorway to the Welsh border. As a result, WPDW serves a diverse customer base including England's second largest city, Birmingham, as well as rural communities.

As at 31 March 2017, WPDW distributed electricity to almost 2.5 million customers through approximately 64,500 kilometres of network.

Western Power Distribution (West Midlands) plc Distribution Service Area map



Description of WPD South West

WPD South West is the regulated monopoly distributor of electricity in the south-western area of England. WPD South West was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South West is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is + 44-117-933-2000. WPD South West joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South West has no subsidiary companies.

WPD South West was formerly known as South Western Electricity plc and changed its name to Western Power Distribution (South West) plc on 31 July 2001.

Description of Principal Activity

WPD South West is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the South West area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 14,400 square kilometres, extending from Bristol and Bath in the northeast, southwest along the peninsula to Land's End and beyond to the Isles of Scilly. WPD South West serves a diverse customer base from the largest cities and towns in WPD South West's service area of Bath, Bristol, Exeter, Plymouth and Taunton to small rural communities.

As at 31 March 2017, WPD South West distributed electricity to almost 1.6 million customers through approximately 50,000 kilometres of network.

Western Power Distribution (South West) plc Distribution Service Area map



Description of WPD South Wales

WPD South Wales is the regulated monopoly distributor of electricity in South Wales. WPD South Wales was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South Wales is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is + 44-117-933-2000. WPD South Wales joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South Wales has no subsidiary companies.

WPD South Wales was formerly known as South Wales Electricity plc and changed its name to Western Power Distribution (South Wales) plc on 31 July 2001.

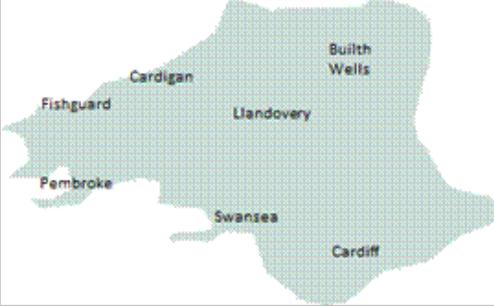
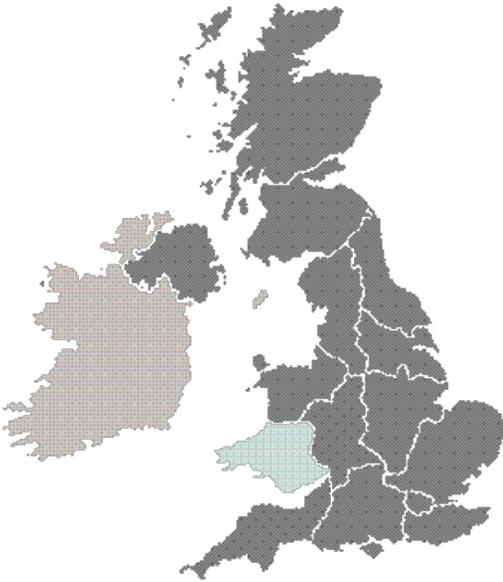
Description of Principal Activity

WPD South Wales is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in South Wales and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

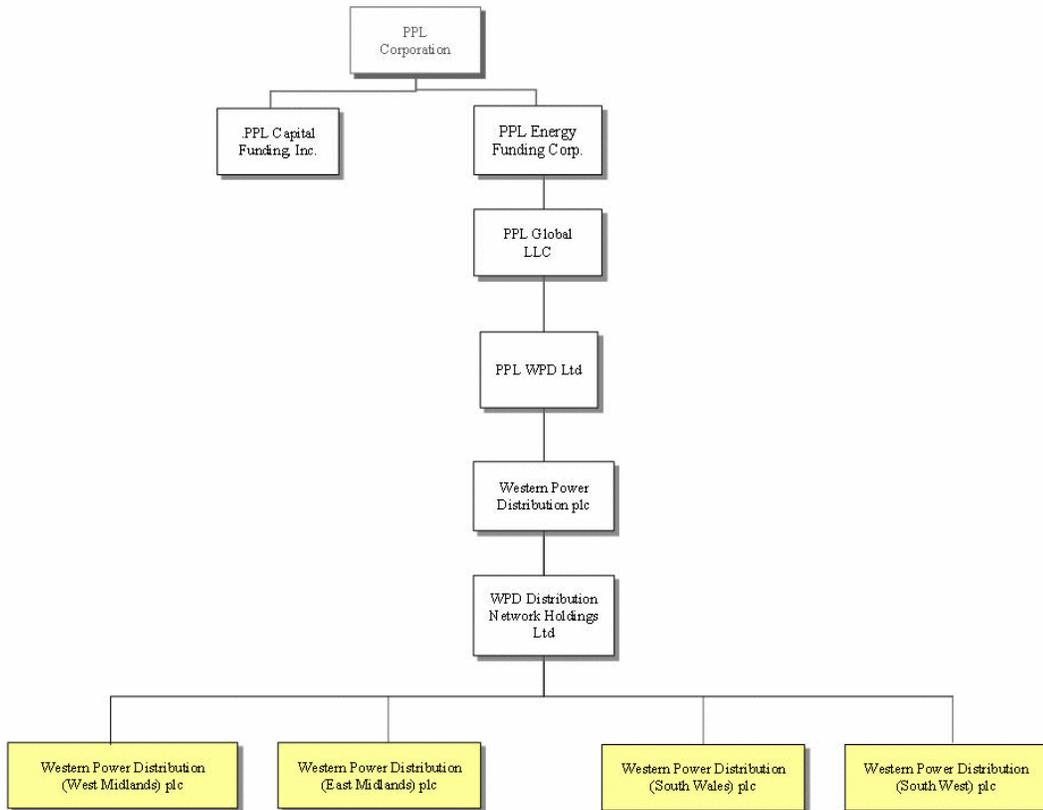
Its network covers approximately 11,800 square kilometres. The service area in Wales covers the south of the country. It covers an extremely diverse region including areas such as the Brecon Beacons National Park to the north, the Pembrokeshire Coast National Park in the West and city of Cardiff in the south. The largest cities and towns in WPD South Wales' service area are Cardiff, Swansea and Newport. Most of the population of South Wales is located in the coastal belt region between Newport and Llanelli, (to the east and west of Cardiff), or in the valleys region to the north of this coastal belt. The remainder of the area is sparsely populated.

As at 31 March 2017, WPD South Wales distributed electricity to over 1.1 million customers through approximately 36,000 kilometres of network.

Western Power Distribution (South Wales) plc Distribution Service Area map



WPD Summary Group Structure Chart



Description of PPL Corporation

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls nearly 8,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets and delivers electricity and natural gas to over 10 million customers in the United States and the United Kingdom.

Business Overview

The Western Power Distribution Business

WPDE, WPDW, WPD South West and WPD South Wales are all indirect subsidiaries of WPD which is an indirect subsidiary of PPL and operate together as a single commercial entity under the brand “Western Power Distribution”. “Western Power Distribution”, as used in this Prospectus, means the multiparty commercial operations of WPDE, WPDW, WPD South West and WPD South Wales.

As required by Ofgem in its regulation of DNOs, WPDE, WPDW, WPD South West and WPD South Wales, are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. As a result of this, all four entities are separately assessed by Ofgem and undergo a separate distribution price control review process (as further explained in the section entitled “*Regulation applying to the Issuers*”).

However, on a management and commercial level, WPDE, WPDW, WPD South West and WPD South Wales, are operated on a combined basis through shared divisional management (as further explained in the section entitled “*Description of the Western Power Distribution Business*”). According to publicly available information accessed through the Energy Networks Association website, Western Power Distribution is the second largest electricity network operator in the United Kingdom (by customer numbers) as at 31 March 2017, with more than 7.8 million customers.

As WPDE, WPDW, WPD South West and WPD South Wales are separate entities for legal and regulatory purposes they each produce accounts. The costs of shared services, employees and operations are allocated back to each entity (as appropriate) in order to produce such accounts.

As at 31 March 2017, WPDE and WPDW had a regulated asset value (RAV) of £2.25 billion and £2.26 billion respectively. In addition the WPD South West and WPD South Wales operations had a RAV of £1.46 billion and £0.99 billion respectively. In total Western Power Distribution have a total RAV of £6.97 billion making it the largest electricity network operator in the United Kingdom by RAV.

Potential investors are also referred to the section entitled “*Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales*” within the section entitled “*Risk Factors*” above.

Strategy

Monitoring the satisfaction of end users connected to the network with the quality of supply provided is a key element of the Western Power Distribution strategy. Each Western Power Distribution entity aims to meet or exceed all the performance criteria established by Ofgem. Network performance is measured by two key criteria:

- (a) *availability*: the number of customer minutes lost per connected customer (CML); and
- (b) *security*: the number of supply interruptions (if greater than 3 minutes) recorded per 100 connected customers (CI).

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system security and availability. The IIS incentive scheme financially incentivises all licensees including WPDE, WPDW, WPD South West and WPD South Wales with respect to both key measures of supply delivered to customers. Ofgem also incentivises the quality of telephone response the customer receives when they contact the licensees, which is assessed by a customer survey carried out on a monthly basis.

For the year 2016/17, the reported adjusted minutes lost per customer and the adjusted interruptions per 100 customers for each of the four companies were:

	WPD South Wales		WPD South West		WPD East Midlands		WPD West Midlands	
	CI	CML	CI	CML	CI	CML	CI	CML
OFGEM IIS Target 2016/17	53.7	33.6	58.9	43.6	52.1	39.1	87.1	53.6
IIS Outturn 2016/17	41.6	25.7	52.5	39.7	44.9	22.0	59.0	32.0
% Out Performance	22.5%	23.5%	10.9%	8.9%	13.8%	43.7%	32.3%	40.3%

(Figures unaudited)

In addition to this in 2016/17, 85.3 per cent of customers off supply in the South West as a result of a High Voltage ("HV") fault were restored within one hour of a fault occurring, with the figure being 87.8% for South Wales, 90.0% for WPDE and 91.2% for WPDW.

The Energy Ombudsman has the role of complaint handling and customer representation for the electricity sector in the United Kingdom and replaced *energywatch* in October 2008.

Directors of WPDE, WPDW, WPD South West and WPD South Wales

All four entities are managed by a Board of Directors comprising the following individuals:

Name	Position	Principal non-Group activities
R A Symons	Chief Executive Officer	None
D C S Oosthuizen	Finance Director	None
I R Williams	Resources and External Affairs Director	None
P Swift	Operations Director	None
M E Fletcher	Sufficiently Independent Director*	None
A J Cardew	Sufficiently Independent Director*	None

*As required by OFGEM.

The business address of each of the Directors is Avonbank, Feeder Road, Bristol BS2 0TB. No Director has any actual or potential conflict of interest between his duties to WPDE, WPDW, WPD South West and WPD South Wales and his private interests and/or other duties.

Regulation applying to the Issuers

Licences

The distribution licences held by WPDE, WPDW, WPD South West and WPD South Wales authorise the licensees to distribute electricity for the purpose of providing a supply in Great Britain with additional obligations under Section B of the distribution licence for any premises in the distribution services area specified in the distribution licence. The licence exists in perpetuity, and can only be revoked by Ofgem (giving no less than 25 years' notice) or by breach of licence. A failure of an Issuer to comply with its licence could lead to an enforcement order being issued by Ofgem. Ofgem has the power to levy fines of up to 10 per cent. of turnover for any breach. In certain circumstances, for example, insolvency, the distribution licence itself may be revoked. The licences provide for a distribution services area, equating to the former authorised area of the former public electricity suppliers in the East Midlands and West Midlands areas the South West of England and South Wales, respectively, in which the respective licensee has certain specific distribution services obligations.

Under the Electricity Act 1989 (as amended), an electricity distributor has a duty, except in certain circumstances, to make a connection between its distribution system and any premises within the designated area for the purpose of enabling electricity to be conveyed to or from the premises and to make a connection between its distribution system and any distribution system of another authorised distributor, for the purpose of enabling electricity to be conveyed to or from that other system.

Each DNO benefits from a regional monopoly and its operations are regulated by its distribution licence. Each DNO is subject to annual limits on its regulated revenues and the quality of supply it must provide, and is provided with financial incentives to minimise its costs and improve the service it provides to its customers.

Distribution Price Controls

Distribution price controls (each a **Distribution Price Control**) are intended to provide companies with sufficient revenues to allow them to finance their efficient operating costs and capital investment. In addition to setting revenues, the price controls also include targets for the overall quality of network performance based upon the average number and duration of supply outages experienced by customers. Companies can be either rewarded or penalised for exceeding or failing these targets.

The charges made for the use of the distribution network are regulated on the basis of annually profiled revenues adjusted for RPI. The RPI is a measure of inflation and in RIIO-ED1 prices are set using a forecast of RPI; subsequently reconciled 2 years later for the actual RPI observed.

It is then for DNOs to develop a charging regime in accordance with Ofgem's approved methodology in order to recover from suppliers an amount up to the allowed revenue. Historically, these tariffs have been a matter for each company individually but Ofgem has implemented licence conditions which compel distributors to work together and set tariffs based upon a common methodology.

The current distribution price control was agreed with Ofgem in May 2014 for the period from 1 April 2015 to 31 March 2023. This resulted in a reduction in the price for the distribution of electricity in the first year of RIIO-ED1 (2015/16). The decreases, before taking into account inflation, were 9.1 per cent. for WPDE, 9.4 per cent. for WPDW and respective decreases of 17.5 per cent. and 23.8 per cent. for South West and South

Wales. For the remaining seven years of RIIO-ED1 the revenues increase annually. All of these annual movements will have RPI inflation applied to them.

DNOs must also meet the standards of performance, which are set by Ofgem to ensure an appropriate level of quality of supply (the **Guaranteed Standards of Performance**). If a company fails to provide the level of service specified, it must make a fixed payment to the end user affected.

The objective of RIIO-ED1 is to drive real benefits for consumers; providing companies with strong incentives to meet the challenges of delivering a sustainable energy sector at a lower cost.

Key features of the regulation of electricity distribution businesses in RIIO-ED1 and beyond, include:

- (a) a move to eight year price controls with mid-point reviews restricted to outputs and whether they remain appropriate;
- (b) The RIIO-ED1 price control includes an Annual Iteration Process. This allows base revenues to be updated during the price control for financial adjustments covering tax, pension deficit payments and the cost of debt allowed to be recovered in revenues, adjustments relating to actual and allowed total expenditure (Totex) and the Totex Incentive Mechanism and legacy price control adjustments from preceding price control periods. Under the Annual Iteration Process, the financial model used to calculate base revenue is re-run using a series of revised input values. This process calculates an incremental change to base revenue, the "MOD" term, which is advised by 30th November preceding each regulatory year.
- (c) more closely align regulatory and physical asset lives on new assets purchased after 2015. This resulted in a decision to extend the regulatory depreciation lives for new expenditure on assets installed after 1 April 2015 from 20 years to 45 years over the course of RIIO-ED1.
- (d) the delivery of 76 different outputs to customers (both qualitative and quantitative) across the areas of safety, reliability, environment, connections, customer satisfaction and social obligations.
- (e) the introduction of a proportionate treatment concept where the degree of scrutiny of licence holders' business plans for any forthcoming price control period is related to the quality of the business plan and records of previous performance, with the possibility of some companies achieving limited scrutiny and an early settlement decision (to be known as a "Fast Track" decision); and
- (f) more clarity around the cost of capital and capitalisation policies at the beginning of the review period as well as recognising the role of equity in financing network businesses, together with a move to a rolling cost of debt allowance based on trailing averages of corporate bond indices. The allowed cost of equity for each of the Issuers is 6.4 per cent. As fast tracked companies, the cost of debt for the Issuers is calculated from a 10 year rolling average of real rates that will be determined from the arithmetical average of the iBoxx A-rated and BBB-rated non-financial indices (of eligible bonds greater than 10 years) less the implied 10-year gilt inflation break evens published daily by the Bank of England. For the year 2017/18, the cost of debt for the Issuers is set at 2.22 per cent.

The WPD business plan, covering all four DNOs, can be found on the WPD website, www.westernpower.co.uk. The comprehensive plan provides details of the level of investment, the improvements in customer service, the financing requirements, the 76 outputs, etc. that will occur within the RIIO-ED1 period.

Customer Information

WPDE's network, which consists of approximately 52,000 kilometres of underground cables and 21,000 kilometres of overhead line (as at 31 March 2017), distributed 26.2 terawatt hours of electricity in the year ended 31 March 2017 to approximately 2.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 62 per cent. of revenues and 52 per cent. of units distributed (for the year ended 31 March 2017). WPDE has approximately 17,700 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 38 per cent. of revenues and 48 per cent. of units distributed (for the year ended 31 March 2017).

WPDW's network, which consists of approximately 41,000 kilometres of underground cables and 23,500 kilometres of overhead line (as at 31 March 2017), distributed 23.3 terawatt hours of electricity in the year ended 31 March 2017 to approximately 2.5 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 63 per cent. of revenues and 54 per cent. of units distributed (for the year ended 31 March 2017). WPDW has approximately 17,600 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 37 per cent. of revenues and 46 per cent. of units distributed (for the year ended 31 March 2017).

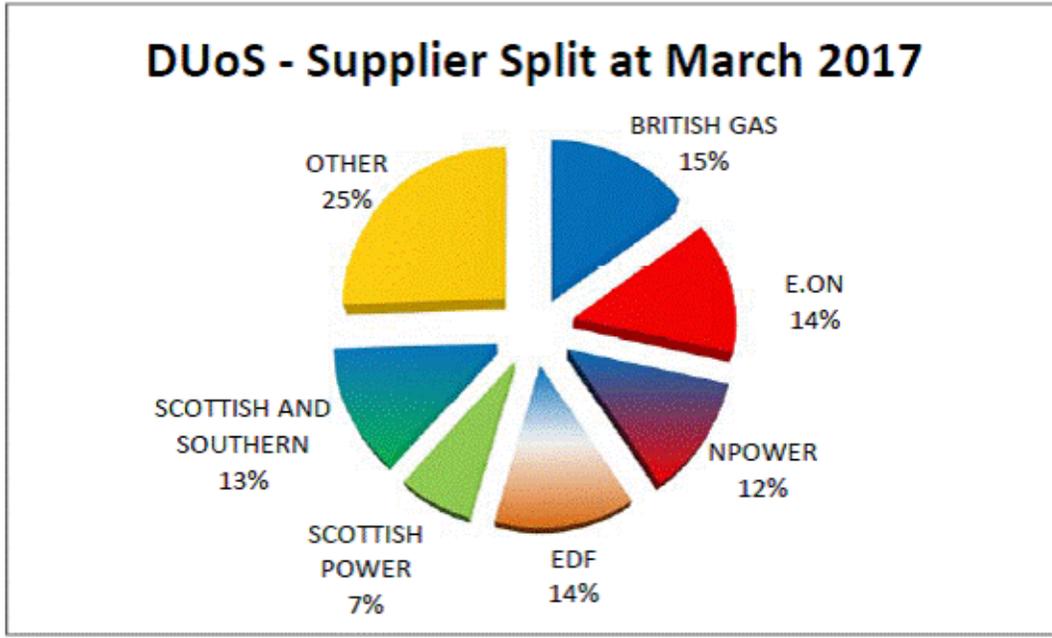
WPD South West's network, which consists of approximately 22,000 kilometres of underground cables and 28,000 kilometres of overhead line (as at 31 March 2017), distributed 13.5 terawatt hours of electricity in the year ended March 2017 to approximately 1.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 74 per cent. of revenues and 62 per cent. of units distributed (for the year ended 31 March 2017). WPD South West has approximately 9,600 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 26 per cent. of revenues and 38 per cent. of units distributed (for the year ended 31 March 2017).

WPD South Wales' network, which consists of approximately 18,000 kilometres of underground cables and 18,000 kilometres of overhead line (as at 31 March 2017), distributed 11.0 terawatt hours of electricity in the year ended 31 March 2017 to approximately 1.1 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 66 per cent. of revenues and only 46 per cent. of units distributed (for the year ended 31 March 2017). WPD South Wales has approximately 6,500 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 34 per cent. of revenues and 54 per cent. of units distributed (for the year ended 31 March 2017).

Transmission and Distribution Facilities

Electricity is transported across National Grid Electricity Transmission plc's transmission system at 400kV or 275kV to 14 Grid Supply Points (**GSPs**) connected to WPDE's distribution network and 16 GSPs connected to WPDW's network, and 11 GSPs connected to both the WPD South West and WPD South Wales networks, where it is transformed to 132kV and enters Western Power Distribution's distribution systems. 88 per cent. of all electricity that enters Western Power Distribution's system is received at these 52 GSPs (as at 31 March 2017). Within the last few years there has been a substantial increase in distributed generation within the WPD area, which accounts for the remaining 12 per cent. that is distributed by WPD.

Whilst Western Power Distribution supplies some 7.8 million connected customers, revenue is derived via some 99 electricity suppliers operating in Western Power Distribution's area with the following market shares as of March 2017:



Operation and control of Western Power Distribution's distribution systems are continuously monitored and coordinated from three control centres located on the outskirts of Birmingham for the West Midlands, near Nottingham for the East Midlands and on the outskirts of Cardiff for the South West and South Wales. Electricity is received by end users at various voltages depending upon their requirements.

Employee Relations

The WPD Group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the WPD Group's aims, objectives, performance and plans and their effect on them as employees through newsletters, regular team briefings and other meetings, as well as through the WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of roadshow presentations by the directors of the WPD Group each year ensure that all staff are aware of, and can contribute to, the WPD Group's corporate goals.

Pensions – WPDE and WPDW

Background

WPDW and WPDE (together the **Midlands Issuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement which currently represents the majority of the funding the Midlands Issuers will be required to make towards their pension arrangements is the Central Networks Group of the Electricity Supply Pension Scheme (the **Central Networks Group** and **ESPS** respectively). The Central Networks Group is closed to new members and new employees join the Issuers' Defined Contribution Scheme called the Western Power Pension Scheme (or **WPPS**).

The Central Networks Group is a sectionalised group of the ESPS which was established on 1 April 2011 in order to receive a transfer of the assets and liabilities of the current and former employees of the Midlands

Issuers or certain of their subsidiaries who were members of the E.On Group of the ESPS. The third actuarial valuation of the Central Networks Group, which determined future cash contributions payable, was completed as at 31 March 2016.

Cash contributions – Central Networks Group

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £603m) are as follows:

- £81.85m per annum payable by the Midlands Issuers between 1 April 2016 to 31 March 2017, with £81.85m plus indexation in line with the increase in RPI over the year to February 2017 for the period from 1 April 2017 to 31 March 2018 payable in equal monthly instalments; plus
- £80m per annum for the period from 1 April 2018 to 31 March 2021 payable in equal monthly instalments; plus
- £48m per annum for the period from 1 April 2021 to 31 March 2026 payable in equal monthly instalments; plus
- £2.0m per annum for the period from 1 April 2017 to 31 March 2026 payable in equal monthly instalments, in relation to the expense loading in respect of non-active members.

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £423m. This was mainly due to the prepayment of all of the deficit repair contributions and the estimated future benefit accrual contributions for 2017/18 being paid on 31 March 2017.

Cash contributions - Other

In addition to contributions to eliminate the deficit, the Midlands Issuers will be required to pay contributions at the required contribution rate towards the benefits that members will continue to accrue in the Central Networks Group and the WPPS, along with contributions to meet the running costs of the Central Networks Group and the Pension Protection Fund levies payable.

Pensions – WPD South West and WPD South Wales

Background

WPD South West and WPD South Wales (together the **WW Issuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement requirements in relation to the WPD ESPS Schemes currently represent the majority of the pension funding requirements the WW Issuers will be required to meet. The WPD ESPS Schemes are closed to new members and new employees are to join the WPPS.

In addition, WPD South Wales is the principal employer of the Western Power Utilities Pension Scheme (**WPUPS**), which is a defined benefit scheme providing benefits to previous employees of various Hyder group companies and was transferred from Hyder in April 2002. However PPL WPD Limited has taken financial responsibility for this scheme. Hyder (in liquidation) was acquired by an affiliate of PPL WPD Limited and previously owned WPD South Wales. WPUPS is closed to new members and future accrual.

WPD (South Wales) is also the principal employer of the Infralec 92 Pension Scheme (I92), which is an hybrid defined contribution/defined benefit scheme providing benefits to previous employees of a Hyder group subsidiary company formerly known as Swalec and which was transferred from Swalec in August 2000.

Cash contributions – WPD Group

The deficit repair payments currently agreed in relation to the WPD Group 2016 Valuation (deficit of £507m, including an expense reserve for non-active members) are as follows:

- £86.966m payable by the WW Issuers between 1 April 2016 to 31 March 2017 payable in equal monthly instalments; plus
- £86.966m plus indexation in line with the increase in the RPI over the year to February 2017 for the period from 1 April 2017 to 31 March 2018 payable in equal monthly instalments; plus
- £86.6m per annum for the period from 1 April 2018 to 31 March 2021 payable in equal monthly instalments; plus
- £20.9m per annum for the period from 1 April 2021 to 31 March 2026 payable in equal monthly instalments; plus
- £1.4m per annum for the period from 1 April 2017 to 31 March 2026 payable in equal monthly instalments, in relation to the expense loading in respect of non-active members.

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £303.7m. This was mainly due to the prepayment of all of the deficit repair contributions and the estimated future benefit accrual contributions for 2017/18 being paid on 31 March 2017.

Cash contributions – WPUPS¹

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £126m) are as follows:

- £1,364,173 per month payable by the WW Issuers between 1 April 2016 to 31 March 2017; plus
- £80.0m lump sum payable on or before 31 January 2017; plus
- £7.0m per annum for the period from 1 April 2020 to 31 March 2026 payable in equal monthly instalments.

The estimated funding position at 31 March 2017 on a “roll-forward” basis was £3.7m surplus. This was mainly due to the lump-sum payment of £80m on 31 January 2017.

Cash contributions – I92

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £3.54m) are as follows:

- A lump sum of £2.5m on or before 31 January 2017; plus
- £235,000 per annum payable by WPD (South Wales) plc between 31 March 2021 and 31 March 2026 (inclusive).

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £0.96m. This was mainly due to the lump-sum payment of £2.5m on 31 January 2017.

Cash contributions – Other

In addition to contributions to eliminate the deficits, the WW Issuers will be required to pay contributions at the required contribution rates towards the benefits that members will continue to accrue in the WPD Group and the WPPS, along with contributions to meet the running costs of the WPD Group, the WPUPS, the WPPS and the Pension Protection Fund levies payable.

¹ (Reimbursed by PPL WPD Limited - See “Pensions - WPD South West and WPD South Wales - Background” above).

TAXATION

UK Taxation

The following is a summary of each Issuer's understanding of current United Kingdom law and published HM Revenue & Customs (HMRC) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. Some aspects do not apply to certain classes of person to whom special rules may apply and it is not intended to be exhaustive. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange", within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of, and in accordance with, the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Payments of interest on the Notes may be made without withholding or deduction on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement or borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that have a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction or tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in the Dealer Agreement, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Dealer Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in the paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will offer and sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of any Series of Notes or the closing date related to such Series of Notes (such period the **Distribution Compliance Period**) only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until the end of the Distribution Compliance Period for any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Indexed Notes shall be subject to such additional U.S. selling restrictions as the Relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

- (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes having a maturity of less than one year (a) it is a person whose ordinary activities involve it in acquiring, holding managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Relevant Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Relevant Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Relevant Issuer, the Note Trustee nor any of the other Dealers shall have any responsibility therefore.

Neither the Relevant Issuer, the Note Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Relevant Issuer and the relevant Dealer shall agree.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of WPDW passed on 4 September 2013, of WPDE passed on 4 September 2013, of WPD South West passed on 4 September 2013 and of WPD South Wales passed on 4 September 2013. The update of the Programme has been duly authorised by a resolution of the Board of Directors of each of the Issuers passed at a meeting of each of the Board of Directors held on 13 September 2017.

Each issue of Notes under the Programme will be authorised by the Committee of the Board of Directors of the Relevant Issuer.

Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the regulated market of the London Stock Exchange. The listing of the Programme in respect of Notes is expected to be granted on or before 21 September 2017.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the documents referred to in the section *Documents Incorporated by Reference* and the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agents for the time being in London:

- (i) the memorandum and articles of association of each Issuer;
- (ii) the Agency Agreement;
- (iii) the Trust Deed; and
- (iv) a copy of this Prospectus and of any supplements thereto.

In addition, the documents referred to in the section *Documents Incorporated by Reference*, this Prospectus and each Final Terms relative to the Notes which are admitted to trading on the regulated market of the London Stock Exchange are also available at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Material Contracts

There are no material contracts entered into other than in the ordinary course of the Issuers' businesses which could result in either being under an obligation or entitlement that is material to the Issuers' ability to meet their obligations to Noteholders in respect of the Notes being issued.

Significant or Material Change

There has been no significant change in the financial or trading position of any of the Issuers and / or of their subsidiaries since 31 March 2017 and there has been no material adverse change in the prospects of any of the Issuers since 31 March 2017.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Issuer is aware) of any of the Issuers in the 12 months preceding the date of this document which may have or have in the recent past had a significant effect on the financial position or profitability of any of the Issuers.

Auditors

Ernst & Young LLP, registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, have audited, without qualification, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board the financial statements of WPD South West, WPD South Wales, WPDW and WPDE for the financial year ended on 31 March 2016.

Ernst & Young LLP, as previous auditors of the Issuers, did not have any material interest in any Issuer.

Deloitte LLP, registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, have audited, without qualification, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board the financial statements of WPD South West, WPD South Wales, WPDW and WPDE for the financial year ended on 31 March 2017.

Deloitte LLP, as incumbent auditors of the Issuers, do not have any material interest in any Issuer.

The audit reports in respect of the financial years ended 2016 and 2017 for WPD South West, WPD South Wales, WPDW and WPDE contain the statement that such report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and that their audit work has been undertaken so that they might state to the company's members those matters they are required to state to them in an auditor's report and for no other purpose.

Such a statement is recommended in guidance issued by the Institute of Chartered Accountants in England and Wales for inclusion in all Section 235 and Chapter 3 of Part 16 audit reports (as applicable) produced by audit firms.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers, other members of the WPD Group and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers, other members of the WPD Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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ISSUERS

Western Power Distribution (West Midlands) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (East Midlands) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (South West) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (South Wales) plc

Avonbank
Feeder Road
Bristol BS2 0TB

NOTE TRUSTEE

HSBC Corporate Trustee Company (UK) Limited

8 Canada Square
London E14 5HQ

ISSUING AND PAYING AGENT, REGISTRAR, TRANSFER AGENT AND CALCULATION AGENT

HSBC Bank plc

8 Canada Square
London E14 5HQ

LEGAL ADVISERS

To the Issuers as to English Law

Allen & Overy LLP

One Bishops Square
London E1 6AD

*To the Arranger, the Dealers
and the Note Trustee as to English Law*

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ

AUDITORS

Deloitte LLP

Hill House
1 Little New Street
London EC4A 3TR

ARRANGER

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250 Bishopsgate
London EC2M 4AA

DEALERS

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Canary Wharf
London E14 4BB

Lloyds Bank plc

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London EC2V 7AE

Banco Santander, S.A.
Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria s/n
28660, Boadilla del Monte
Madrid, Spain

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

HSBC Bank plc
8 Canada Square
London E14 5HQ

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF

Mizuho International plc
Mizuho House
30 Old Bailey
London EC4M 7AU

The Royal Bank of Scotland plc
(trading as NatWest Markets)
250 Bishopsgate
London EC2M 4AA

**AMENDMENT NO. 1
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN**

WHEREAS, PPL Services Corporation (“PPL”) has adopted the PPL Employee Stock Ownership Plan (“Plan”) effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective December 1, 2016, and

NOW, THEREFORE, the Plan is hereby amended as follows:

- I. Effective October 1, 2017, Section 7.5, Termination of Employment, is amended to read as follows:

**ARTICLE VII
DISTRIBUTION**

7.5 Termination of Employment. Upon a Participant's retirement or other termination of employment with PPL and all Affiliated Companies, he shall be entitled to receive his interest in the Fund. Subject to Subsection 7.7(c), (a) if the value of his interest in the Fund exceeds \$5,000 (\$1,000 effective March 28, 2005), his interest shall not be paid to him or applied for his benefit until (1) he consents in writing to such payment or application, or (2) he attains his 65th birthday or (3) he dies; whichever occurs first; (b) otherwise, his interest shall be paid to him or applied for his benefit in a single sum on or before the close of the first calendar quarter next following the calendar quarter in which such termination takes place.

II. Except as provided in this Amendment No. 1, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 1 is executed this _____ day of _____, 2017.

Employee Benefit Plan Board

By: _____
Julissa Burgos
Chair, Employee Benefit Plan Board

g:\steno\jj\plans\esop amend_1.doc

\$200,000,000

TERM LOAN CREDIT AGREEMENT

dated as of October 26, 2017

among

**LOUISVILLE GAS AND ELECTRIC COMPANY,
as the Borrower,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent**

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Appendix A - Commitments

Exhibits:

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Exhibit B - Form of Note

Exhibit C - Form of Assignment and Assumption Agreement

Exhibit D - Forms of Opinion of Counsel for the Borrower

TERM LOAN CREDIT AGREEMENT (this “Agreement”) dated as of October 26, 2017 is entered into among LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), the LENDERS party hereto from time to time and U.S. BANK NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Borrower has requested that the Lenders provide a term loan facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means U.S. Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall the Administrative Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating the applicable interest rate for any day for (i) any Base Rate Loans, 0.00% or (ii) any Euro-Dollar Loans, 0.50%.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means a Loan in respect of which interest is computed on the basis of the Base Rate.

“Borrower’s Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrowing” means a borrowing consisting of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period pursuant to Section 2.01.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own, directly or indirectly, 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise or branch profits or similar taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated

Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time, including any Lender subject to a Bail-In Action. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower and each Lender.

“Delayed Draw Commitment Fee” has the meaning set forth in Section 2.07(a).

“Delayed Draw Commitment Fee Rate” shall mean a rate per annum equal to 0.10%.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Internal Revenue Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to the nearest 1/100th of 1%) charged by U.S. Bank on such day on such transactions as determined by the Administrative Agent; provided, further, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“FERC” means the Federal Energy Regulatory Commission.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Loans consisting of (i) all Loans which are Base Rate Loans at such time or (ii) all Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such

Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Maturity Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent or any Lender any other amount required to be paid by it hereunder within two Business Days of the date when due, or (ii) a Lender having notified the Borrower and the Administrative Agent in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity, or (v) the Lender becomes the subject of a Bail-in Action; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan or a Euro-Dollar Loan (made on either the Effective Date or the Post-Effective Date Loan Date), and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of U.S. Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of U.S. Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice.

Notwithstanding the foregoing, if the London Interbank Offered Rate determined in accordance with the foregoing shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material

adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Maturity Date” means the date that is one year and 364 days after the Effective Date or, if such date is not a Business Day, the next preceding Business Day.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Loans.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Administrative Agent as to which the Administrative Agent shall have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Connection Taxes” means, with respect to the Administrative Agent or any Lender, taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto imposed as a result of a present or former connection between such Person and the jurisdiction imposing such tax (other than connections arising from such Person having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Outstandings” means at any time, with respect to any Lender, the sum of the aggregate principal amount of such Lender’s outstanding Loans.

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Post-Effective Date Loan Date” means the date, if any, after the Effective Date and during the Availability Period on which the Lenders make the Post-Effective Date Loan.

“Post-Effective Date Loan” means the Loan, if any, made after the Effective Date pursuant to Section 2.01.

“Post-Effective Date Loan Sublimit” means \$100,000,000.00.

“Prime Rate” means the rate of interest publicly announced by U.S. Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, vice president, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“S&P” means Standard & Poor’s Ratings Group, a division of S&P Global Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctioned Country” means a country, region or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Crimea, Cuba, Iran, North Korea, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom or any other applicable sanctions authority.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (i) the Post-Effective Date Loan Date (after giving effect to the Post-Effective Date Loan, if any, on such date), (ii) 11:59 p.m. (New York City time) on the date that is 180 days after the Effective Date and (iii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“U.S. Bank” means U.S. Bank National Association, and its successors.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

ARTICLE II THE CREDITS

Section 2.01 The Loans. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Loans denominated in Dollars to the Borrower pursuant to this Section 2.01 in an aggregate amount not to exceed such Lender’s Commitment. The Loans shall be available in up to two drawings, one drawing on the Effective Date and one drawing on a date during the Availability Period in an amount that shall not exceed the Post-Effective Date Loan Sublimit. The amount of each Loan shall be specified by the Borrower in accordance with Section 2.03. Each Borrowing shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Loans borrowed under this Section 2.01 and paid or prepaid may not be reborrowed. The Commitment shall be automatically reduced upon each drawing of Loans in an amount equal to the principal amount drawn.

Section 2.02 [Reserved].

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice (substantially in the form of Exhibit A-1 hereto (a “Notice of Borrowing”)) not later than (a) 11:30 A.M. (New York City time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York City time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) the initial Type of the Loans comprising such Borrowing;
- (iv) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period; and
- (v) the account or accounts in which the proceeds of the Borrowing should be credited.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (New York City time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York City time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (New York City time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (New York City time) on the date of each Euro-Dollar Borrowing.

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender

hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to such Lender (or, if required by such Lender, to such Lender and its registered assigns). Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to such Lender or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date and on the Maturity Date and, with respect to the principal amount of any Base Rate Loan converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert

all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (New York City time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro-Dollar Loan and (B) 11:30 A.M. (New York City time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Delayed Draw Loan Commitment Fee. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Delayed Draw Commitment Fee”) for each day at a rate per annum equal to the Delayed Draw Commitment Fee Rate for such day. The Delayed Draw Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Outstandings on such day.

(b) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and , if later, on the date the Loans shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders,

the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Loans are outstanding or (y) the aggregate Outstandings of such Defaulting Lender in respect of Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent or any Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Loans shall thereafter be based upon such redetermined Commitment Ratios. The right of the Borrower to effect such a termination pursuant to Section 2.08(b) or (c) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Repayment of Loans. The Loans shall mature on the Maturity Date and the Borrower shall repay to the Administrative Agent, for the ratable account of the Lenders on the Maturity Date, the aggregate principal amount of all Loans made to the Borrower outstanding on such date (together with accrued interest thereon and fees in respect thereof and all other amounts owed with respect to the Obligations hereunder).

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and fees hereunder not later than 12:00 Noon (New York City time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the

actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exist for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (New York City time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Loans participated in by, assets of, deposits with or for

the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any participation in any Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clause (i)(a) and clauses (ii) through (iv) of the definition of Taxes in Section 2.17(a), (D) Connection Income Taxes, and (E) Taxes attributable to a Lender's failure to comply with Section 2.17(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) Payments Net of Certain Taxes. Any and all payments made by the Borrower to or for the account of any Lender or the Administrative Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and franchise or similar taxes imposed on, the Administrative Agent or any Lender (a) by the jurisdiction (or subdivision thereof) under the laws of which such Lender or the Administrative Agent is organized or in which its principal office is located or, in the case of each Lender, in which its Applicable Lending Office is located or (b) that are Other Connection Taxes, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as “Taxes”). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, “Other Taxes”).

(c) Indemnification. The Borrower agrees to indemnify each Lender and the Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or the Administrative Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or the Administrative Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or the Administrative Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower

agrees to repay, upon the request of such Lender or the Administrative Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or the Administrative Agent in the event such Lender or the Administrative Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the “business profits” or “other income” article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Internal Revenue Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely

for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 [Reserved].

Section 2.20 Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then such Defaulting Lender will not be entitled to any fees accruing during such period pursuant to Section 2.07(a).

**ARTICLE III
[RESERVED]**

**ARTICLE IV
CONDITIONS**

Section 4.01 Conditions to Effective Date. The obligation of each Lender to make a Loan on the occasion of the first Borrowing hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by a Responsible Officer of the Borrower certifying that (A) on the Effective Date and after giving effect to the Loans being made on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received opinions from (i) Pillsbury Winthrop Shaw Pittman LLP, counsel to the Borrower, and (ii) the Vice President and Deputy General Counsel, Legal and Environmental Affairs and Corporate Secretary of the Borrower, addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order(s) of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent and the Lenders accrued through the Effective Date shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

(j) Notice of Borrowing. Receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03.

Section 4.02 Conditions to Borrowings. The obligation of any Lender to make any Loan on any date on or after the Effective Date (including the Post-Effective Date Loan on the Post-Effective Date Loan Date) is subject to the satisfaction of the following conditions:

(a) the Effective Date shall have occurred;

(b) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03;

(c) the fact that, immediately before and after giving effect to such Borrowing, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Borrowing, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Borrowing under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (c) and (d) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants on the Effective Date and the Post-Effective Date Loan Date that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2016 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Deloitte & Touche LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2017 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2016, there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent

and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulation U or Regulation X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the approval of the FERC, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09 Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect its ability to

perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14 OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.15 Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”) or any other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid:

Section 6.01 Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower’s website or PPL Corporation’s website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a Responsible Officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities)

(each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03 Conduct of Business and Maintenance of Existence. The Borrower will (a) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental

Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. The Borrower (a) will keep, and, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to, or shall be limited to the extent regarding, any matters which the Borrower deems, in good faith, to be confidential or subject to legal or regulatory restrictions on access, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential or appropriately qualifies for such legal or regulatory access.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 6.07 Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (c) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower’s Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans; or
- (b) the Borrower shall fail to pay when due any interest on the Loans, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or

other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans at such time, by notice to the Borrower declare the Loans (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII THE ADMINISTRATIVE AGENT

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise

exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an agent, and the terms “Required Lenders”, “Lender” and “Lenders” shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a “notice of default”. If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Administrative Agent and Other Lenders. Each Lender expressly acknowledges that none of the Administrative Agent or officer, director, employee, agent, attorney-in-fact or affiliate of the Administrative Agent has made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each

Lender acknowledges to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of, and investigation into, the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. The Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectability or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no

Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or telecopy is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers, in the case of the Borrower

and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with a copy to:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Vice President and Deputy General Counsel,
Legal and Environmental Affairs
and Corporate Secretary
Telephone: 502-627-2501
Facsimile: 502-627-3367

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Assistant Treasurer
Telephone: 610-774-4182
Facsimile: 610-774-5235

if to the Administrative Agent:

U.S. Bank National Association
461 Fifth Avenue, 6th Floor
New York, NY 10017
Attention: Maria Distefano
Telephone: 917-326-3944

Facsimile: 917-256-2890
Email: maria.distefano@usbank.com

with a copy to:

U.S. Bank National Association
461 Fifth Avenue, 7th Floor
New York, NY 10017
Attention: James O'Shaughnessy
Telephone: 917-326-3924
Facsimile: 646-935-4533
Email: james.oshaughnessy@usbank.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by the Administrative Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Administrative Agent, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Administrative Agent and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Administrative Agent and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with

any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan or any Note made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent are affected thereby, by

the Administrative Agent); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates), (iii) postpone the date fixed for any payment of interest on any Loan or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating

interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, and the Administrative Agent, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on

which the Administrative Agent will record the Commitments from time to time of each Lender, the principal amount (and stated interest) of the Loans made by each Lender (and any Notes evidencing the same) and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this [Section 9.06\(e\)](#), otherwise complies with [Section 9.06](#), and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in [Section 9.06\(c\)](#). The Register shall be available for inspection by the Borrower at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to [Section 2.08\(b\)](#), unless, with respect to any Notes held by such Lender, the requirements of [Section 9.06\(c\)](#) and this [Section 9.06\(e\)](#) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws (without regarding to the conflict of laws provisions) of the State of New York, but giving effect to federal laws applicable to national banks. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City, borough of Manhattan, for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in [Article VI](#) to eliminate the

effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to New York City time.

Section 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to the Administrative Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by the Administrative Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which the Administrative Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or the Administrative Agent's Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, the Administrative Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree

that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Acknowledgment and Consent to Bail-in of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

Section 9.16 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of the Administrative Agent and each Lender, as applicable.

Section 9.17 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges

payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment, shall have been received by such Lender.

Section 9.18 Severability. Any provision of any Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 9.19 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 9.20 Document Imaging. The Borrower hereby acknowledges the receipt of a copy of this Agreement and all other Loan Documents. The Administrative Agent may, on behalf of the Borrower, create a microfilm or optical disk or other electronic image of this Agreement and any or all of the Loan Documents. The Administrative Agent may store the electronic image of this Agreement and the Loan Documents in their electronic form and then destroy the paper original as part of the Administrative Agent's normal business practices, with the electronic image deemed to be an original.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY,
as Borrower

By: /s/ Daniel K. Arbough _____

Name: Daniel K. Arbough

Title: Treasurer

[Signature Page to LGE Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent and Lender

By: /s/ Andrew N. Taylor

Name: Andrew N. Taylor

Title: Senior Vice President

[Signature Page to LGE Credit Agreement]

COMMITMENTS

Lender	Commitment
U.S. Bank National Association	\$200,000,000.00
Total	\$200,000,000.00

Form of Notice of Borrowing

_____ , _____

U.S. Bank National Association
 461 Fifth Avenue, 6th Floor
 New York, NY 10017
 Attention: Maria Distefano
 Email:
 Commercialcustservicecincinnati1@usbank.com
 and
maria.distefano@usbank.com

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and U.S. Bank National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be _____, _____.¹
2. The aggregate principal amount of the Borrowing will be _____.²
3. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.
4. The initial Interest Period for the Loans comprising such Borrowing shall be _____.³

[Insert appropriate delivery instructions, which shall include bank and account number].

¹Must be a Business Day.

²Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Commitment.

³Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

Form of Notice of Conversion/Continuation

U.S. Bank National Association
 461 Fifth Avenue, 6th Floor
 New York, NY 10017
 Attention: Maria Distefano
 Email:
 Commercialcustservicecincinnati1@usbank.com
 and
 maria.distefano@usbank.com

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and U.S. Bank National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below].

2. The date on which the conversion/continuation selected hereby is to be effective is _____, _____ (the "Election Date").⁴

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$ _____.⁵

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____.⁶

⁴Must be a Business Day.

⁵May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to

which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

⁶Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert “one month”, “two months”, “three months” or “six months” (subject to the provisions of the definition of Interest Period).

A-2-2

Form of Note

FOR VALUE RECEIVED, the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), promises to pay to _____ (the “Lender”) or its permitted successors and its registered assigns, in accordance with the Credit Agreement (as hereinafter defined), the principal sum of _____ AND _____/100s DOLLARS (\$ _____), or, if less, the principal amount of all Loans advanced by the Lender to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (as the same may be amended, modified or supplemented from time to time, the “Credit Agreement”) by and among the Borrower, the lenders party thereto (collectively, the “Lenders”) and U.S. Bank National Association, as administrative agent (the “Administrative Agent”) for itself and on behalf of the Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, continue and convert the Lender’s Loans (or portions thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Lender, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Lender in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Lender not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

The Borrower for itself, its successors and assigns hereby waives presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest of this Note.

No delay or omission on the part of the Lender or its permitted successors and its registered assigns in exercising its rights under this Note, or delay or omission on the part of the Lender or its permitted successors and its registered assigns, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Lender or its permitted successors and its registered assigns, nor shall any waiver by the Lender or its permitted successors and its registered assigns, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

This Note is one of the Notes referred to in, and evidences the Lender's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

Unless and until an Assignment and Acceptance effecting the assignment or transfer of the obligations evidenced hereby shall have been accepted by the Administrative Agent and recorded in the Register as provided in the Credit Agreement, the Borrower and the Administrative Agent shall be entitled to deem and treat the Lender as the owner and holder of this Note and the Loan evidenced hereby.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

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IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representatives as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

By: _____

Name:

Title:

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Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each] an “Assignor”) and [the] [each] Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] hereunder are several and not joint.] Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Louisville Gas and Electric Company

4. Administrative Agent: U.S. Bank National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 by and among Louisville Gas and Electric Company, as Borrower, the Lenders party thereto and U.S. Bank National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: _____¹¹

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⁷For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

⁸For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

⁹Select as appropriate.

¹⁰Include bracketed language if there are either multiple Assignors or multiple Assignees.

¹¹To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

See Schedule attached hereto

[Consented to and]¹² Accepted:

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent

By _____
Title:

[Consented to:]¹³

LOUISVILLE GAS AND ELECTRIC COMPANY

By _____
Title:

¹²To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹³To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ¹⁴	Amount of Commitment/ Loans Assigned ¹⁵	Percentage Assigned of Commitment/ Loans ¹⁶	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]¹⁷ [and is an Affiliate of [*identify Lender*]]¹⁸

¹⁴Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁵Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁶Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

¹⁷Add additional signature blocks, as needed.

¹⁸Select as applicable.

ANNEX 1 to Assignment and Assumption

TERM LOAN CREDIT AGREEMENT DATED AS OF
OCTOBER 26, 2017
BY AND AMONG
LOUISVILLE GAS AND ELECTRIC COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
AND U.S. BANK NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender and (vi) based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such

documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date. Notwithstanding the foregoing, the Administrative Agent shall make all payments of interest, fees or other amounts paid or payable in kind from and after the Effective Date to [the][the relevant] Assignee.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinion of Counsel for the Borrower

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D-1

October __, 2017

To the Administrative Agent and each of the Lenders party as of the date hereof to the Term Loan Credit Agreement referred to below

Re: Louisville Gas and Electric Company
\$200,000,000 Term Loan Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to Louisville Gas and Electric Company, a Kentucky corporation (the “Company”), in connection with the negotiation, execution and delivery of the \$200,000,000 Term Loan Credit Agreement dated as of October __, 2017 among the Company, U.S. Bank National Association, as Administrative Agent, and the other Lenders party thereto (the “Credit Agreement”). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Credit Agreement.

In preparing this letter, we have reviewed the Credit Agreement and the other documents executed and delivered by the Company in connection therewith. We have also reviewed the Order of the Federal Energy Regulatory Commission dated September 18, 2017 (Docket No. ES17-41-000) (the “FERC Order”).

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Credit Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. The Company is not an “investment company” within the meaning of the Investment Company Act of 1940.

3. The borrowings under the Credit Agreement and the use of proceeds thereof as contemplated by the Credit Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions set forth in this letter, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Credit Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions set forth in this letter. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed: (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Credit Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under the Credit Agreement, (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Credit Agreement and (iv) has duly executed and delivered the Credit Agreement; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Credit Agreement do not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties or (E) any law (other than the law of the State of New York and the federal law of the United States) or (ii) require any Governmental Approval (other than the FERC Order, which we assume to have been duly granted and to remain in full force and effect); (i) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission; (j) that there are no agreements, understandings or negotiations between the parties not set forth in the Credit Agreement that would modify the terms thereof or the rights and obligations of the

parties thereunder; and (k) for purposes of our opinion set forth in paragraph 1 above as it relates to the choice-of-law provisions in the Credit Agreement, that the choice of law of the State of New York as the governing law of the Credit Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions set forth in this letter are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Credit Agreement: (i) Section 9.02 (cumulative remedies); (ii) provisions relating to rules of evidence or quantum of proof; (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction); and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Credit Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of any party other than the Company and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent. At your request, we hereby consent to reliance hereon by any future assignee of your interest in the Loans that becomes a Lender under

the Credit Agreement pursuant to an assignment that is made and consented to in accordance with the express provisions of Section 9.06 of the Credit Agreement, on the condition and the understanding that (i) any such reliance by a future Lender must be actual and reasonable under the circumstances, (ii) we have no responsibility or obligation to consider the applicability or correctness of this letter to any person or entity other than its named addressee or addressees or at any time other than as of the date hereof, and (iii) any such future Lender may rely on this letter to no greater extent than you may as of the date hereof but any such future Lender also is subject to any changes or developments up to the time it acquires its interest that may adversely affect our opinions set forth in this letter.

Very truly yours,

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D-5

[Letterhead of Dorothy E. O'Brien, Esq.]

October __, 2017

To the Administrative Agent and each of the Lenders party as of the date hereof to the Credit Agreement referred to below

Re: \$200,000,000 Term Loan Credit Agreement

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel, Legal and Environmental Affairs and Corporate Secretary of Louisville Gas and Electric Company (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$200,000,000 Term Loan Credit Agreement, dated as of October __, 2017, among the Borrower, U.S. Bank National Association, as Administrative Agent, and the Lenders party thereto (the "Credit Agreement"). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Credit Agreement.

I am familiar with the Credit Agreement and other documents executed and delivered by the Borrower in connection therewith. I, or Borrower attorneys under my supervision, also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Credit Agreement by the Administrative Agent and the Lenders party thereto; and (c) that the Credit Agreement constitutes the legal, valid and binding obligation of the Administrative Agent and the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky, and has the corporate power to make and perform its obligations under the Credit Agreement.

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2. The execution and delivery of the Credit Agreement and performance by the Borrower of its obligations thereunder have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower's articles of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.

3. The Credit Agreement has been duly executed and delivered by the Borrower.

4. Except as disclosed in or contemplated by the Credit Agreement or the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed prior to the date hereof with the Securities and Exchange Commission on Form 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Credit Agreement. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Credit Agreement.

5. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.

6. The September 18, 2017 Order of the Federal Energy Regulatory Commission relating to the Borrower is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution and delivery of the Credit Agreement by the Borrower, the performance by the Borrower of its obligations thereunder or the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. At the request of the Administrative Agent and the Lenders, I hereby consent to reliance hereon by any future assignee of any interest in the Loans that becomes a Lender under the Credit Agreement pursuant to an assignment that is made and consented to in accordance with the express provisions of Section 9.06 of the Credit Agreement, on the condition and the understanding that (i) any such reliance by a future Lender must be actual and reasonable under the circumstances, (ii) I have no responsibility or obligation to consider the applicability or correctness of this letter to any person or entity other than its named addressee or addressees or at any time other than as of the date hereof, and (iii) any such future Lender may rely on this letter to no greater extent than Lenders

may as of the date hereof but any such future Lender also is subject to any changes or developments up to the time it acquires its interest that may adversely affect the opinions and matters referred to in this letter. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

Dorothy E. O'Brien

D-8



The Directors
 Western Power Distribution (South West) PLC
 Western Power Distribution (South Wales) PLC
 Western Power Distribution (West Midlands) PLC
 Western Power Distribution (East Midlands) PLC
 Avonbank
 Feeder Road
 Bristol
 BS2 OTB

23rd January 2014

Dear Sirs

£20,000,000 uncommitted facility letter to Western Power Distribution (South West) PLC, Western Power Distribution (South Wales) PLC, Western Power Distribution (West Midlands) PLC and Western Power Distribution (East Midlands) PLC

1 The Facility

- 1.1. We, BNP Paribas, London Branch (the **Bank**), are pleased to make available to Western Power Distribution (South West) PLC (company number 02366894), Western Power Distribution (South Wales) PLC (company number 02366985), Western Power Distribution (West Midlands) PLC (company number 03600574) and Western Power Distribution (East Midlands) PLC (company number 02366923) (each a **Borrower** and together the **Borrowers**) an uncommitted Sterling revolving advances facility as described in Schedule 2 (the **Facility**) on the terms and conditions set out in this Letter.
- 1.2 No Borrower shall request any Utilisation until the Bank has received the documents and other evidence listed in Schedule 1 (Conditions precedent) in form and substance satisfactory to the Bank.
- 1.3 The Facility shall be available to the Borrowers for Utilisations up to the Facility Limit.
- 1.4 The Bank is willing to make the Facility available to the Borrowers subject to:
 - (a) the Facility Terms specific to the Facility as set out in Schedule 2 (*Facility Terms - Revolving Advances Facility*) and the general terms set out in the main body of this Letter;
 - (b) the Bank's Credit Terms and Conditions for on-demand facilities (June 2012 Version) (the Credit Terms and Conditions); and
 - (c) the Bank's General Terms of Business, as may be amended from time to time (the General Terms of Business).

BNP Paribas London Branch

10 Harewood Avenue London NWG1 AA - Tel: +44 (0)20 7595 2000 - www.bnpparibas.com

BNP Paribas London Branch is authorised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available on request.

BNP Paribas London Branch is registered in England and Wales undr no. FC13447

BNP Paribas SA is authorised by the Autorité de Contrôle Prudentiel and regulated by the Autorité des Marchés Financiers in France. MNP Paribas SA is incorporated in France with Limited Liability Registered Office: 16 Boulevard des Italiens, 75009 Paris, France 662 042 449 RCS Paris. ©BNP Paribas. All rights reserved.

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- 1.5 If there is any conflict between the provisions of the General Terms of Business and the terms of this Letter or the Credit Terms and Conditions, the terms of this Letter or the Credit Terms and Conditions, as applicable, shall prevail. If the terms set out in the main body of this Letter impose a stricter obligation than the Facility Terms (unless the Facility Terms expressly override the relevant provision of this Letter) the Borrowers must comply with the stricter obligation.
- 1.6 (a) If there is any conflict between the provisions of the Credit Terms and Conditions and the terms of this Letter, the terms of this Letter shall prevail.
- (b) For the avoidance of doubt Clause 10(b) of the Credit Terms and Conditions shall not apply to this Letter.
- 1.7 The Facility shall be utilised solely towards financing the working capital requirements and general corporate purposes of the Borrowers. The Bank shall not be obliged to investigate or monitor the use or application of the proceeds of Utilisations.
- 1.8 The provisions of Clauses 2 (*Definitions*) and 3 (*Interpretation*) of the Credit Terms and Conditions shall apply to this Letter as if set out in full again here, with such changes as are appropriate to fit this context.
- 1.9 The following definitions apply in this Letter:

Base Currency means sterling.

Group means in relation to Western Power Distribution (East Midlands) PLC, and Western Power Distribution (West Midlands) PLC, PPL WEM Holdings Limited (company number 04066211), and each company that is treated as its subsidiary in its consolidated financial statements, and in relation to Western Power Distribution (South Wales) PLC, and Western Power Distribution (South West) PLC, PPL WW Holdings Limited (company number 04267536), and each company that is treated as its subsidiary in its consolidated financial statements.

Optional Currency none.

2 Financial covenants

- 2.1 None.

3 Additional Utilisation Conditions

There are no utilisation conditions other than the conditions set out in Clause 7 (*Utilisation*) of the Credit Terms and Conditions.

4 Fees and Default Interest

- 4.1 No separate fees are payable by the Borrowers upon its acceptance of this Letter.
- 4.2 If any Borrower fails to pay any amount on its due date, such Borrower shall pay the Bank interest on that amount (or on so much as from time to time remains unpaid) from the due date to the date of actual payment (both before and after judgment) calculated by reference to successive Interest Periods at the rate per annum that is equal to:

- (a) (subject to paragraph (b) below) two per cent. higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Utilisation in the currency of the overdue amount; or
- (b) (if any overdue amount consists of all or part of a Utilisation which became due on a day which was not the last day of an Interest Period relating to that Utilisation):
 - (i) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Utilisation; and
 - (ii) the rate of interest applying to the overdue amount during that first Interest Period shall be two per cent. higher than the rate which would have applied if the overdue amount had not become due.

5 Additional Undertakings

In addition to the undertakings set out in Clause 10 (*Undertakings*) of the Credit Terms and Conditions and except where the Bank specifically agrees otherwise in writing and in advance, each Borrower undertakes that it shall until all amounts payable under the Finance Documents have been irrevocably paid and the Facility has been withdrawn deliver to the Bank its audited annual consolidated accounts within 180 days after the end of the financial year to which they relate, and that it shall promptly provide the Bank with such other information about itself as the Bank may reasonably require.

6 Counterparts

This Letter may be executed in any number of counterparts, each of which shall be an original and all of which shall together form one and the same agreement.

7 Governing law and jurisdiction

- 7.1 This Letter and any non-contractual obligations arising out of or in connection with it are governed by English law.
- 7.2 The Courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Letter (including a dispute relating to any non-contractual obligation arising out of or in connection with this Letter). The Bank and the Borrowers agree that the Courts of England are the most appropriate and convenient courts to settle any such disputes and accordingly none of them will argue to the contrary. This paragraph is for the benefit of the Bank only. As a result, the Bank shall not be prevented from taking proceedings relating to any such dispute in any other courts with jurisdiction. To the extent allowed by law, the Bank may take concurrent proceedings in any number of jurisdictions.



BNP PARIBAS

Signed for and on behalf of
Western Power Distribution (South West) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014

Signed for and on behalf of
Western Power Distribution (West Midlands) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014

Signed for and on behalf of
Western Power Distribution (East Midlands) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014



BNP PARIBAS

Schedule 1 - Conditions precedent

- 1 The enclosed duplicate of this Letter, duly executed on behalf of the Borrowers.
 - 2 A certified copy of the resolutions of the Board of Directors (or equivalent executive body) of each Borrower approving the terms of the Finance Documents to which that Borrower is party and authorising specified persons to execute on behalf of that Borrower those documents and any other documents that it is necessary or desirable for that Borrower to enter into in connection with the Facility or the Finance Documents.
 - 3 A specimen of the signature of each person authorised by the resolutions referred to in paragraph 2 above.
 - 4 A copy of any other authorisation or other document, opinion or assurance that the Bank considers to be necessary or desirable in connection with the entry into and performance of, and the transactions contemplated by, any Finance Document or for the validity and enforceability of any Finance Document.
-

Schedule 2 - Facility Terms - Revolving Advances Facility

Facility Limit:	£20,000,000 (twenty million pounds sterling)
Margin:	1.60% (one point six per cent) per annum.
Interest Rate Basis:	LIBOR
Interest Periods:	<p>A Borrower must select an Interest Period for a Utilisation in the Utilisation Request for that Utilisation. The Borrower may select an Interest Period of up to 7 days as agreed between that Borrower and the Bank.</p> <p>Each Interest Period for a Utilisation shall start on the Utilisation Date.</p> <p>A Utilisation has one Interest Period only.</p>
Payment of Interest:	Interest shall be payable in arrears on the last day of the relevant Interest Period, but subject always to Clauses 8.5(c) (<i>Interest, Fees and Commission</i>) and Clause 9.3 (<i>Repayment</i>) of the Credit Terms and Conditions.
Repayment:	Subject always to the Bank's right at any time to demand earlier repayment in accordance with Clause 9 (<i>Repayment</i>) of the Credit Terms and Conditions, the Borrower must repay each Utilisation on the last day of its Interest Period.



Schedule 3 - Form of Utilisation Request

From: Western Power Distribution (South West) PLC /
Western Power Distribution (South Wales) PLC /
Western Power Distribution (West Midlands) PLC /
Western Power Distribution (East Midlands) PLC (*delete as applicable*)

To: **BNP Paribas, London Branch**

Dated: [•]

Dear Sirs

Western Power Distribution (South West) PLC, Western Power Distribution (South Wales) PLC, Western Power Distribution (West Midlands) PLC and Western Power Distribution (East Midlands) PLC - £20,000,000 facility letter dated 23rd January 2014 (the Agreement)

- 1 We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
- 2 We wish to make a Utilisation under the Facility on the following terms:

Proposed Utilisation Date: *Insert date (or, if that is not a Business Day, the next Business Day)*

Amount: *insert amount*

Interest Period: *confirm duration of Interest Period*
- 3 We confirm that each condition specified in Clause 5 (*Conditions precedent to all Utilisations*) and in Clause 7.2 (*Utilisation*) of the Credit Terms and Conditions is satisfied on the date of this Utilisation Request.
- 4 This Utilisation Request is irrevocable.

Yours faithfully

.....

Authorised Signatory for
Western Power Distribution (South West) PLC /
Western Power Distribution (South Wales) PLC /
Western Power Distribution (West Midlands) PLC /
Western Power Distribution (East Midlands) PLC (*delete as applicable*)



The Directors
 Western Power Distribution (South West) PLC
 Western Power Distribution (South Wales) PLC
 Western Power Distribution (West Midlands) PLC
 Western Power Distribution (East Midlands) PLC
 (each a "**Borrower**" and together the "**Borrowers**")
 Avonbank
 Feeder Road
 Bristol
 BS2 OTB

28th July 2017

Dear Sirs,

£20,000,000 uncommitted facility letter (the "Facility Letter") dated 23rd January 2014 for the Borrower with BNP Paribas, London Branch (the "Bank")

1. Background

- (a) We refer to the Facility Letter. Terms defined in the Facility Letter shall, unless the context requires otherwise, have the same meaning when used in this letter, and in addition the term "**Effective Date**" means the date on which the Bank notifies the Borrowers that it has received, in form and substance satisfactory to it, (or that the Bank has waived the receipt of) all of the documents and other evidence listed in the Schedule (*Conditions Precedent*) to this letter.
- (b) This letter is a Finance Document.
- (c) The provisions of Clauses 2 (*Definitions*), 3 (*Interpretations*) and 14 (*Third Party Rights*) of the Credit Terms and Conditions shall apply to this letter as if set out in full again here, with such changes as are appropriate to fit this context.

BNP Paribas London Branch

10 Harewood Avenue London NW1 AA - Tel: +44 (0)20 7595 2000 - www.bnpparibas.com

Incorporated in France with Limited Liability Registered Office 16 boulevard des Italiens, 75009 Paris, France 662 042 449 RCS Paris
 BNP Paribas London Branch is lead supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR). BNP Paribas Long Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas London Branch is registered in England and Wales under no. FC13447



2. Amendments

- (a) With effect on and from the Effective Date, the Facility Letter will be amended by deleting 7 days in the Interest Periods clause of Schedule 2 and replacing it with 31 days.
- (b) Subject to the terms of this letter, all other provisions of the Facility Letter remain unchanged and the Facility Letter will remain in full force and effect.
- (c) The Facility Letter (including the Credit Terms and Conditions and the General Terms of Business) and this letter will be read and construed as one document.
- (d) If the Effective Date has not occurred before the date that is 45 days after the date of this letter, then this letter shall immediately on such date be void and of no further legal force and effect.

3. Representations

Each of the Borrowers confirms to the Bank on the date of this letter and on the Effective Date that the representations and warranties contained in the General Terms of Business:

- (a) are true; and
- (b) would also be true if references to the "Agreement" as referred to in the General Terms of Business are construed so as to include the Facility Letter as amended by this letter

in each case by reference to the facts and circumstances then existing. For the avoidance of doubt, such representations and warranties are, and shall be, thus confirmed by each of the Borrowers with respect to itself, notwithstanding any references in the drafting of such representations and warranties to "the Client" or "you".

4. Fees, Costs and Expenses

- (a) The Borrowers shall (on a joint and several basis), promptly upon demand, reimburse the Bank for the amount of all costs and expenses (including legal fees) reasonably incurred in connection with this letter and all VAT in respect of such costs and expenses.
- (b) The Borrowers shall be responsible for their own costs and expenses (including legal fees) incurred in connection with this letter.

5. Counterparts

This letter may be executed in any number of counterparts, each of which shall be an original and all of which shall together form one and the same agreement.



BNP PARIBAS

6. Governing Law and Jurisdiction

- (a) This letter and any non-contractual obligations arising out of or in connections with it are governed by English law.
- (b) The Courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to any non-contractual obligation arising out of or in connection with this letter). The Bank and the Borrowers agree that the Courts of England are the most appropriate and convenient courts to settle any such disputes and accordingly none of them will argue to the contrary. This paragraph is for the benefit of the Bank only. As a result, the Bank shall not be prevented from taking proceedings relating to any such dispute in any other courts with jurisdiction. To the extent allowed by law, the Bank may take concurrent proceedings in any number of jurisdictions.

7. Acceptance

The Borrowers may confirm their acceptance of the terms and conditions of this letter by signing the acceptance on the enclosed duplicate of this letter and returning it to the Bank.

Yours faithfully
For and on behalf of
BNP Paribas, London Branch

/s/ Steve Duranti

by: Steve Duranti
title: Head of MNC

/s/ Ian Rosenthal

by: Ian Rosenthal
title: Authorised Signatory



BNP PARIBAS

We acknowledge and agree to the terms of this Letter.

Signed for and on behalf of

Western Power Distribution (South West) PLC

Signed: /s/ I.R. Williams

Name: I.R. Williams

Position: Director

Date: 31 August 2017

Signed for and on behalf of

Western Power Distribution (South Wales) PLC

Signed: /s/ I. R. Williams

Name: I. R. Williams

Position: Director

Date: 31 August 2017



BNP PARIBAS

Signed for and on behalf of
Western Power Distribution (West Midlands) PLC

Signed: /s/ I. R. Williams

Name: I. R. Williams

Position: Director

Date: 31 August 2017

Signed for and on behalf of
Western Power Distribution (East Midlands) PLC

Signed: /s/ I. R. Williams

Name: I. R. Williams

Position: Director

Date: 31 August 2017



BNP PARIBAS

SCHEDULE

Conditions Precedent

- (a) The enclosed duplicate of this letter, duly executed on behalf of each of the Borrowers.
- (b) A copy of a resolution of the board of directors (or the equivalent executive body or equivalent evidence of relevant corporate approval) of each of the Borrowers approving the terms of, and the transactions contemplated by, this letter and authorising a specified person or persons to execute this letter on its behalf.
- (c) A specimen of the signature of each person authorised by the resolutions referred to in item (b) above.
- (d) A copy of any other authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration or other document, opinion or assurance which the Bank considers necessary or desirable in connection with this letter.

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Nine Months Ended September 30,		Years Ended December 31,			
	2017	2016	2015 (a)	2014 (a)	2013 (a)	2012 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,371	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728	\$ 1,406
Adjustment to reflect earnings from equity method investments on a cash basis (b)	1	(1)	(1)	—	—	34
	<u>1,372</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>	<u>1,440</u>
Total fixed charges as below	684	917	1,054	1,095	1,096	1,065
Less:						
Capitalized interest	3	4	11	11	11	6
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Interest expense and fixed charges related to discontinued operations	—	—	150	186	235	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>681</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>	<u>819</u>
Total earnings	<u>\$ 2,053</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>	<u>\$ 2,259</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 676	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058	\$ 1,019
Estimated interest component of operating rentals	8	17	16	22	38	41
Preferred security distributions of subsidiaries on a pre-tax basis	—	—	—	—	—	5
Total fixed charges (d)	<u>\$ 684</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>
Ratio of earnings to fixed charges	<u>3.0</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>3.0</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.1</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes other-than-temporary impairment loss of \$25 million in 2012.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(d) Interest on unrecognized tax benefits is not included in fixed charges.

(e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(Millions of Dollars)

	Nine Months Ended September 30, 2017	Years Ended December 31,				
		2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 410	\$ 552	\$ 416	\$ 423	\$ 317	\$ 204
Total fixed charges as below	114	141	139	131	117	107
Total earnings	<u>\$ 524</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>	<u>\$ 311</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 111	\$ 137	\$ 135	\$ 127	\$ 113	\$ 104
Estimated interest component of operating rentals	3	4	4	4	4	3
Total fixed charges (b)	<u>\$ 114</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 107</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.9</u>
Preferred stock dividend requirements on a pre-tax basis	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6
Fixed charges, as above	114	141	139	131	117	107
Total fixed charges and preferred stock dividends	<u>\$ 114</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>	<u>\$ 113</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.6</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30, 2017	Years Ended December 31,				
		2016	2015	2014	2013	2012
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 517	\$ 686	\$ 603	\$ 553	\$ 551	\$ 331
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>518</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>	<u>364</u>
Total fixed charges as below	<u>168</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>	<u>157</u>
Total earnings	<u>\$ 686</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>	<u>\$ 521</u>
Fixed charges, as defined:						
Interest charges (b) (c)	\$ 161	\$ 214	\$ 181	\$ 167	\$ 145	\$ 151
Estimated interest component of operating rentals	7	9	8	6	6	6
Total fixed charges	<u>\$ 168</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>	<u>\$ 157</u>
Ratio of earnings to fixed charges	<u>4.1</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>	<u>3.3</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(c) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 260	\$ 329	\$ 299	\$ 272	\$ 257	\$ 192
Total fixed charges as below	57	76	61	51	36	44
Total earnings	<u>\$ 317</u>	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>	<u>\$ 236</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 53	\$ 71	\$ 57	\$ 49	\$ 34	\$ 42
Estimated interest component of operating rentals	4	5	4	2	2	2
Total fixed charges	<u>\$ 57</u>	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>	<u>\$ 44</u>
Ratio of earnings to fixed charges	<u>5.6</u>	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>	<u>5.4</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings, as defined:						
Income Before Income Taxes	\$ 316	\$ 428	\$ 374	\$ 355	\$ 360	\$ 215
Adjustment to reflect earnings from equity method investments on a cash basis (a)	1	(1)	(1)	(1)	(1)	33
	<u>317</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>	<u>248</u>
Total fixed charges as below	<u>75</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>	<u>72</u>
Total earnings	<u>\$ 392</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>	<u>\$ 320</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 72	\$ 96	\$ 82	\$ 77	\$ 70	\$ 69
Estimated interest component of operating rentals	3	4	4	3	3	3
Total fixed charges	<u>\$ 75</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>	<u>\$ 72</u>
Ratio of earnings to fixed charges	<u>5.2</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>	<u>4.4</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Vincent Sorgi

Vincent Sorgi
 Senior Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Morningstar[®] Document ResearchSM

FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: November 14, 2017 (period: November 09, 2017)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 9, 2017

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by a check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company

Section 7 – Regulation FD

Item 7.01 Regulation FD Disclosure

On November 9, 2017, a new three-year labor agreement between Louisville Gas and Electric Company ("LG&E") and the International Brotherhood of Electrical Workers Local 2100 was ratified by members of the Local 2100.

The agreement, which became effective November 11, 2017 and will run through November 10, 2020, includes a wage increase of 3 percent in the first year and increases in the subsequent years of 2.5 percent each, among other provisions.

Local 2100 represents approximately 671 LG&E employees in Kentucky. LG&E and Local 2100 reached a tentative agreement on November 7th, which was then submitted to union members for a vote.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: November 14, 2017

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: January 16, 2018 (period: January 10, 2018)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 10, 2018

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 under the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
 - LG&E and KU Energy LLC
 - Louisville Gas and Electric Company
 - Kentucky Utilities Company
-

Section 2 – Financial Information

Item 2.03 Creation of a Direct Financial Obligation under an Off-Balance Sheet Arrangement of a Registrant

On January 11, 2018, Louisville Gas and Electric Company ("LG&E") borrowed the remaining \$100 million available under its existing \$200 million term loan credit facility with U.S. Bank, National Association, as Administrative Agent, and the other Lenders party thereto. This portion of the loan bears interest at a variable monthly rate, with an initial rate of 2.05%, and the borrowing matures and the facility expires in October 2019. The proceeds were used to repay short-term debt and for other general corporate purposes.

A copy of the term loan credit facility was filed as Exhibit 10(b) to PPL Corporation's Form 10-Q Report for the quarter ended September 30, 2017.

Section 7 – Regulation FD

Item 7.01 Regulation FD Disclosure

On January 10, 2018, LG&E and Kentucky Utilities Company ("KU", and collectively with LG&E, "Companies") filed an application with the Kentucky Public Service Commission ("KPSC") requesting approval of a Certificate of Public Convenience and Necessity to install approximately 1.3 million advanced meters ("AMS") in the Companies' service areas in Kentucky. If approved as proposed, the project would commence in late 2018 and have a deployment duration of approximately three years.

The estimated capital cost of the proposed AMS project during the deployment phase is approximately \$104 million for LG&E's electric operations, \$62 million for LG&E's gas operations and \$147 million for KU's electric operations. The full AMS project will also result in estimated incremental operating costs during the deployment phase of approximately \$11 million for LG&E's electric operations, \$3 million for LG&E's gas operations and \$15 million for KU's electric operations.

The Companies requested that the KPSC issue an order in the proceeding prior to June 1, 2018.

Statements in this report regarding future events and their timing, including the proposed transactions contemplated by the Companies, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: the progress or course of construction or installation; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; market demand and prices for electricity or gas; political, regulatory or economic conditions in states and regions where the Company conducts business; and new state or federal legislation, including new environmental legislation or regulation.. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Company's Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: January 16, 2018

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: January 30, 2018 (period: January 29, 2018)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 29, 2018

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by a check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

On January 29, 2018, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and collectively with LG&E, the "Companies") issued a press release announcing that the Companies have reached a settlement with the parties to the Kentucky Public Service Commission ("KPSC") proceeding relating to rate matters as a result of the Tax Cuts and Jobs Act.

Pursuant to the proposed settlement, the Companies would return approximately \$177 million in tax-reform related savings to Kentucky customers. The savings will be distributed through various rate mechanisms beginning in March 2018 and through new monthly bill energy credits from April 1, 2018 through April 30, 2019. The rate reductions represent approximately \$69 million and \$91 million in LG&E and KU electric rates, respectively, and \$17 million in LG&E gas rates for the period January 2018 through April 2019. The relevant mechanisms include the environmental cost recovery, demand side management and gas line tracker. Because the bill credits are based upon energy usage, ultimate aggregate savings amounts returned by the Companies may vary.

The proposed agreement also provides for similar, but smaller, tax-reform related credits to continue after May 2019, in the event the base rates of the Companies have not been otherwise reset via base rate proceedings. The Companies have indicated their expectation to submit such applications to change base rates during 2018.

The proposed agreement is subject to review and approval by the KPSC. A ruling in the proceeding may occur during the first quarter 2018.

A copy of the press release is furnished as exhibit 99.1 to this report.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

[99.1](#) - Press release, dated January 29, 2018, of Louisville Gas and Electric Company and Kentucky Utilities Company.

Statements in this report regarding future events and their timing, including the Companies' proposed rate changes, future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity and natural gas; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. All forward-looking statements should be considered in light of these important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: January 30, 2018

Press Release

LG&E and KU Energy LLC
220 West Main Street
Louisville, Kentucky 40202
www.lge-ku.com

Contact:

Media Line
T 502-627-4999
F 502-627-3629

January 29, 2018

LG&E and KU reach unanimous settlement to deliver nearly \$180 million in tax savings to customers

(LOUISVILLE, Ky.) – Customers of Louisville Gas and Electric Company and Kentucky Utilities Company will begin to see the financial benefits associated with the Tax Cuts and Jobs Act beginning in March.

The two utilities announced today that they will file a unanimous settlement agreement with the Kentucky Public Service Commission requesting approval to return tax savings to customers this spring.

If approved by the commission, customers would see nearly \$180 million in savings in the form of a reduction on the Environmental Surcharge line item on their bill in March, followed by a new line item credit on the bill based on energy consumption starting in April.

Kentucky, which opened the proceeding on the tax changes in late December, was one of the first regulatory commissions to take action and begin a process that would allow utilities to return the savings to customers as soon as possible.

“We had been supportive of the Tax Act all along because of the savings for our residential and business customers, so we are pleased that the commission acted quickly to enable us to deliver these savings so expeditiously. The other parties to this case — the Kentucky Attorney General and the Kentucky Industrial Utility Customers — truly had the customer in mind and a willingness to work together to reach a mutually acceptable solution,” said Kent Blake, chief financial officer at LG&E and KU. “With the colder-than-average winter, and subsequent high energy use, these savings will come at a key time for our customers.”

“This settlement is important for Kentucky’s industrial customers and the economic advancement of our state,” said Mike Kurtz, attorney for the Kentucky Industrial Utility Customers. “We appreciate the initiative in the plan that LG&E and KU outlined, the willingness of the parties to negotiate, and the commission’s expediency that has enabled us to be in a place where we could be able to put these savings back into the Kentucky economy in a timely manner.”

The settlement is subject to KPSC approval, but if approved, KU customers will receive an estimated \$91 million in savings. For a residential customer using an average of 1,179 Kwh per month, that is about a 5.3 percent bill reduction.

LG&E customers will receive an estimated \$86 million in savings. For a LG&E residential electric customer using an average of 957 Kwh per month, that equates to a roughly 5.6 percent bill reduction. For a LG&E residential gas customer using an average of 55 Ccf per month that equates to approximately a 3 percent bill reduction.

###

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve nearly 1.3 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 324,000 natural gas and 407,000 electric customers in Louisville and 16 surrounding counties. KU serves 549,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.

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FORM 10-K

LG&E & KU Energy LLC - N/A

Filed: February 22, 2018 (period: December 31, 2017)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2017

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507-1462 (502) 627-2000	61-0247570

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Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	New York Stock Exchange
2013 Series B due 2073	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

PPL Corporation	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	<input checked="" type="checkbox"/>
Kentucky Utilities Company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

As of June 30, 2017, PPL Corporation had 685,472,890 shares of its \$0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$26,500,381,927. As of January 31, 2018, PPL Corporation had 694,049,792 shares of its \$0.01 par value Common Stock outstanding.

As of January 31, 2018, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2018, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2018, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

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PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2017. Such Statements will provide the information required by Part III of this Report.

**PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2017

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This combined Form 10-K is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' financial statements in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, an indirect U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

401(h) account(s) - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Act 129 Smart Meter program - PPL Electric's system-wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Advanced Metering System - meters and meter-reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AIP - annual iteration process.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DDCP - Directors Deferred Compensation Plan.

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Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DOJ - U.S. Department of Justice.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Fast pot - Under RIIO-ED1, Totex costs that are recovered in the period they are incurred.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

GWh - gigawatt-hour, one million kilowatt hours.

Holdco - Talen Energy Holdings, Inc., a Delaware corporation, which was formed for the purposes of the June 1, 2015 spinoff of PPL Energy Supply, LLC.

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IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

kV - kilovolt.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

Margins - a non-GAAP financial measure of performance used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

MMBtu - one million British Thermal Units.

MOD - a mechanism applied in the U.K. to adjust allowed base demand revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MPR - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NGCC - natural gas-fired combined-cycle generating plant.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

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Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PPL EnergyPlus - prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

PPL Energy Supply - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL EnergyPlus and other subsidiaries.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the PJM grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

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RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

RJS Power - RJS Generation Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business contributed by its owners to Talen Energy.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIP - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

Slow pot - Under RIIO-ED1, Totex costs that are added (capitalized) to RAV and recovered through depreciation over a 20 to 45 year period.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

Talen Energy Marketing - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus subsequent to the spinoff of PPL Energy Supply.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

Total shareowner return - the change in market value of a share of the Company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

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Totex (total expenditures) - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

TRU - a mechanism applied in the U.K. to true-up inflation estimates used in determining base demand revenue.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations, including the TCJA;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the results of the potential RIIO-ED1 MPR currently being evaluated by Ofgem, with a decision as to whether to engage in such a review and the scope thereof to be announced in the spring of 2018;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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Any forward-looking statements should be considered in light of these important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in the statement to reflect subsequent developments or information.

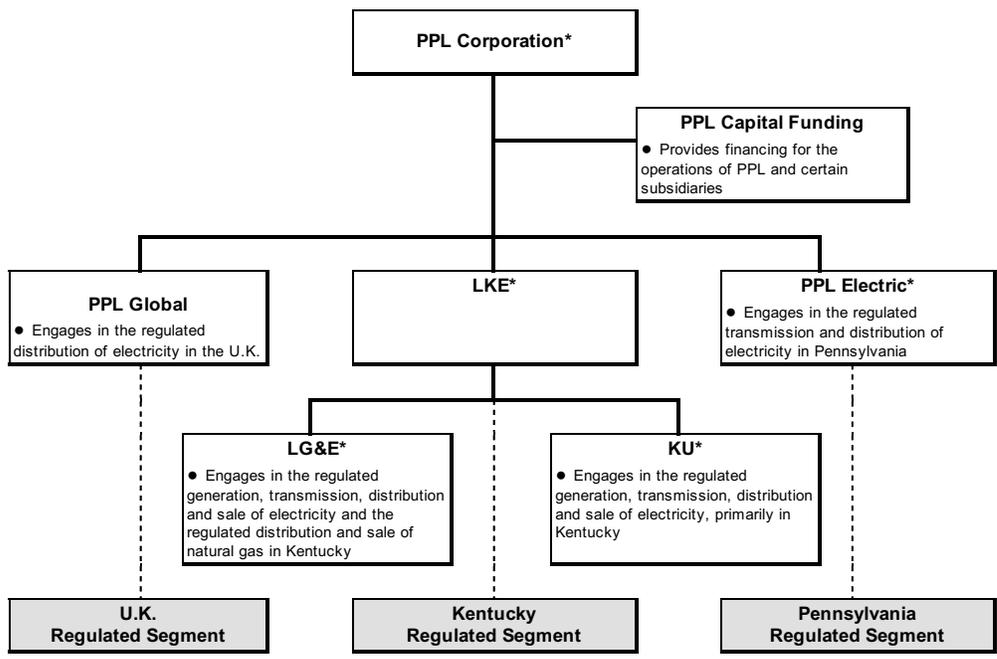
PART I
ITEM 1. BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See "Spinoff of PPL Energy Supply" below for more information.

PPL's principal subsidiaries at December 31, 2017 are shown below (* denotes a Registrant).



PPL Global is not a registrant. Unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished contemporaneously with this report on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also

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engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs which primarily include financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. As a result of the June 1, 2015 spinoff of PPL Energy Supply, PPL no longer has a Supply segment. The operations of the Supply segment are included in "Loss from Discontinued Operations (net of income taxes)" on the Statements of Income.

A comparison of PPL's three regulated segments is shown below.

	<u>U.K. Regulated</u>	<u>Kentucky Regulated</u>	<u>Pennsylvania Regulated</u>
For the year ended December 31, 2017:			
Operating Revenues (in billions)	\$ 2.1	\$ 3.2	\$ 2.2
Net Income (in millions)	\$ 652	\$ 286	\$ 359
Electricity delivered (GWh)	74,317	31,839	35,996
At December 31, 2017:			
Regulatory Asset Base (in billions) (a)	\$ 9.8	\$ 9.2	\$ 6.9
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.9	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information about the segments.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

- **U.K. Regulated Segment** (PPL)

Consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

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WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through indirect wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 7.9 million across 21,600 square miles in south Wales and southwest and central England.

Revenues, in millions, for the years ended December 31 are shown below.

	2017	2016	2015
Operating Revenues (a)	\$ 2,091	\$ 2,207	\$ 2,410

(a) WPD's Operating Revenues are translated from GBP to U.S. dollars using the average GBP to U.S. dollar exchange rates in effect each month. The annual weighted average of the monthly GBP to U.S. dollar exchange rates used for the years ended December 31, 2017, 2016 and 2015 were \$1.28 per GBP, \$1.37 per GBP and \$1.53 per GBP.

Franchise and Licenses

WPD's operations are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. Ofgem is a non-ministerial government department and an independent National Regulatory Authority that is responsible for protecting the interests of existing and future electricity and natural gas consumers. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each of the DNOs to develop, maintain and operate efficient distribution networks. WPD's operations are regulated under these licenses which set the outputs WPD needs to deliver for their customers and associated revenues WPD is allowed to earn. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

Ofgem has the formal power to propose modifications to each distribution license; however licensees can appeal such changes to the U.K.'s Competition and Markets Authority in the event of a disagreement with the regulator. Generally, any potential changes to these licenses are reviewed with stakeholders in a formal regulatory consultation process prior to a formal change proposal.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four distribution businesses are, therefore, regulated monopolies, which operate under regulatory price controls.

Customers

WPD provides regulated electricity distribution services to licensed third party energy suppliers who use WPD's networks to transfer electricity to their customers, the end-users. WPD bills energy suppliers for this service and the supplier is responsible for billing its end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether the supplier needs to collateralize its payment obligations.

WPD's costs make up approximately 16% of a U.K. end-user customer's electricity bill.

U.K. Regulation and Rates

Overview

Ofgem has adopted a price control regulatory framework with a balanced objective of enhancing and developing electricity networks for the future, controlling costs to customers and allowing DNOs, such as WPD's DNOs, to earn a fair return on their investments. This regulatory structure is focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Price controls are established based on long-term business plans developed by each DNO with substantial input from its stakeholders. To measure the outputs and performance, each DNO business plan includes incentive targets that allow for increases and/or reductions in revenues based on operational performance, which are intended to align returns with quality of service, innovation and customer satisfaction.

For comparative purposes, amounts listed below are in British pounds sterling, nominal prices and in calendar years unless otherwise noted.

Key Ratemaking Mechanisms

PPL believes the U.K. electricity utility model is a premium jurisdiction in which to do business due to its significant stakeholder engagement, incentive-based structure and high-quality ratemaking mechanisms.

Current Price Control: RIIO-ED1

WPD is currently operating under an eight-year price control period called RIIO-ED1, which commenced for electricity distribution companies on April 1, 2015. The regulatory framework is based on an updated approach for sustainable network regulation known as the "RIIO" model where Revenue = Incentives + Innovation + Outputs.

The RIIO framework allows for a MPR, which is a review halfway through the price control period to assess potential changes in outputs during the price control period. The scope of the potential MPR was originally limited to material changes to outputs that can be justified by clear changes in government policy and the introduction of new outputs that are needed to meet the needs of consumers and other network users. Ofgem is currently consulting on the scope of the potential MPR. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Financial and Operational Developments - Regulatory Requirements" for additional information.

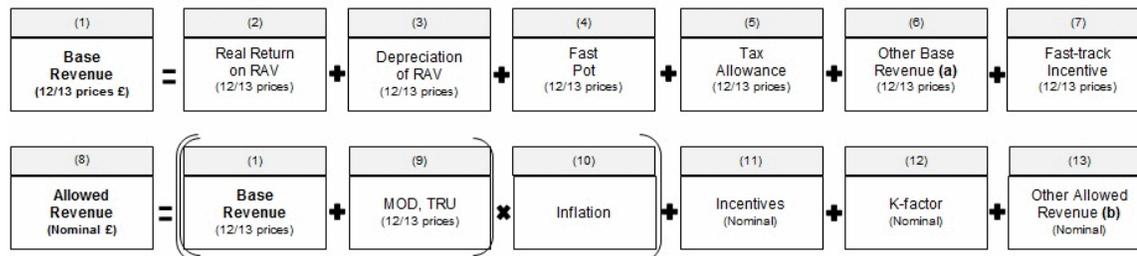
In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD's DNOs' business plans were accepted by Ofgem as "well justified" and were "fast-tracked" ahead of all of the other DNOs. WPD's DNOs were rewarded for being fast-tracked with preferential financial incentives, a higher return on equity and higher cost savings retention under their business plans as discussed further below.

WPD's combined RIIO-ED1 business plans include funding for total expenditures of approximately £12.8 billion (nominal) over the eight-year period, broken down as follows:

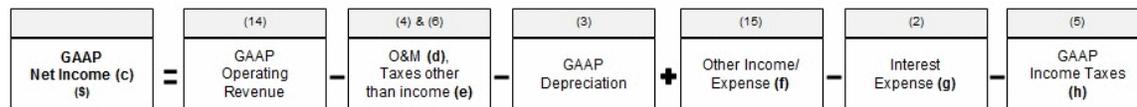
- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem fees and National Grid transmissions charges); and
- Corporate income taxes recovery - £0.5 billion.

The chart below illustrates the building blocks of allowed revenue and GAAP net income for the U.K. Regulated Segment. The revenue components are shown in either 2012/13 prices or nominal prices, consistent with the formulas Ofgem established for RIIO-ED1. The reference numbers included in each block correspond with the descriptions that follow.

Regulatory - year ending March 31



GAAP - calendar year converted to U.S. dollars



- (a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.
- (b) Primarily pass through true-ups and £5 per residential customer reduction.

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- (c) Reference Form 8-K filed February 22, 2018 for U.K. Regulated Segment GAAP Statement of Income component values.
- (d) Includes GAAP pension costs/income (see "Defined Benefits, Net periodic defined benefit costs (credits)" in Note 11 to the Financial Statements).
- (e) Primarily property taxes.
- (f) Primarily gains and losses on foreign currency hedges.
- (g) Includes WPD interest and \$32 million of allocated interest expense to finance the acquisition of WPD Midlands.
- (h) GAAP income taxes represent an effective tax rate of 19% for 2017, 16% for 2016 and approximately 17% going forward.

(1) Base Revenue

The base revenue that a DNO can collect in each year of the current price control period is the sum of the following which are discussed further below:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion "(4) *Expenditure efficiency mechanisms*" below;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- pension deficit funding
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion "(6) *Other revenue included in base revenue*" below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive.

(2) Real Return on capital from RAV

Real-time returns on cost of regulated equity (real) - Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD's base equity returns are calculated using an equity ratio of 35% of RAV at the DNO. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return, for 2017 and 2016 were £151 million and £144 million.

Indexed cost of debt recovery (real) - As part of WPD's fast-track agreement with Ofgem for RIIO-ED1, WPD collects in revenues an assumed real cost of debt that is derived from a historical 10-year bond index (iBoxx) and adjusted annually for inflation. This calculated real cost of debt is then applied to 65% of RAV at the DNOs to determine the cost of debt revenue recovery. The cost of debt was set at 2.55% in the original "well justified" business plans. The recovery amounts are trued up annually as a component of the MOD true-up mechanism described within "(9) *MOD and Inflation True-Up (TRU)*" below.

Actual interest expense is reflective of prior financing activities and any financing required to fund capital expenditures. Therefore, the amount collected in revenues may differ from the actual interest expense recorded in the Statements of Income. Currently, WPD is under-recovering its DNO-related interest expense and is expected to continue to under-recover through the remainder of RIIO-ED1.

Interest costs relating to debt issued at WPD's holding companies are not recovered in revenues and for 2017 and 2016 were approximately £49 million and £54 million.

(3) Recovery of depreciation in revenues - Recovery of depreciation in regulatory revenues is one of the key mechanisms Ofgem uses to support financeable business plans that provide incentives to attract the continued substantial investment required in the U.K. Differences between GAAP and regulatory depreciation exist primarily due to differing assumptions on asset lives and because RAV is adjusted for inflation using RPI.

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved near-term revenues and cash flows for DNOs during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After review and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs that fully demonstrated a need to ensure a financeable plan. WPD adopted a transition that

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has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets. Effective January 1, 2015 after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

Because Ofgem uses a real cost of capital, the RAV and recovery of depreciation are adjusted for inflation using RPI. The inflation revenues collected in this line item help recover the cost of equity and debt returns on a "nominal" basis, compared to the "real" rates used to set the return component of base revenues.

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2017 and 2016, this difference was £424 million and £415 million (pre-tax) and positively impacted net income. We expect this difference to continue in the £400 million to £450 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1) assuming RPI of approximately 3.0% per year from 2018 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

(4) Expenditure efficiency mechanisms - Ofgem introduced the concept of Totex in RIIO to ensure all DNOs face equal incentives in choosing between operating and capital solutions. Totex is split between immediate recovery (called "Fast pot") and deferred recovery as an addition to the RAV (called "Slow pot"). The ratio of Slow pot to Fast pot was determined by each DNO in their business plan development. WPD established a Totex split of 80% Slow pot and 20% Fast pot for RIIO-ED1 to balance maximizing RAV growth with immediate cost recovery to support investment grade credit ratings. Comparatively, other DNOs on average used a ratio of approximately 70% Slow pot and 30% Fast pot for RIIO-ED1.

Ofgem also allows a Totex Incentive Mechanism that is intended to reward DNOs for cost efficiency. WPD's DNOs are able to retain 70% of any amounts not spent against its RIIO-ED1 plan and bear 70% of any over-spends. Any amounts to be returned to customers are trued up in the AIP discussed below.

Because Fast pot cost recovery represents 20% of Totex expenditures and certain other costs are recovered in other aspects of revenue, Fast pot will not equal operation and maintenance expenses recorded for GAAP purposes.

(5) Income Tax Allowance - For price control purposes, WPD collects income tax based on Ofgem's notional tax charge, which will not equal the amount of income tax expense recorded for GAAP purposes. The following table shows the amount of taxes collected in revenues and recorded under GAAP.

	2017	2016
Taxes collected in revenues	£ 57	£ 53
Taxes recorded under GAAP	139	119

(6) Other revenue included in base revenue - Other revenue included in base revenue primarily consists of pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

Recovery of annual (normal) pension cost and pension deficit funding - Ofgem allows DNOs to recover annual (normal) pension costs through the Totex allocation, split between the previously described Fast pot (immediate recovery) and Slow pot recovery (as an addition to RAV). The amount of normal pension cost is computed by the pension trustees, using assumptions that differ from those used in calculating pension costs/income under GAAP. In addition, the timing of the revenue collection may not match the actual pension payment schedule, resulting in a timing difference of cash flows.

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £142 million and £139 million in 2017 and 2016.

See Note 11 to the Financial Statements for additional information on pension costs/income recognized under GAAP.

Recovery of pass through costs - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £19 million and £8 million in 2017 and 2016. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

Profiling adjustments - Ofgem permitted DNOs the flexibility to make profiling adjustments to their base revenues within their business plans. These adjustments do not affect the total base revenue in real terms over the eight-year price control period, but change the year in which the revenue is collected. In the first year of RIIO-ED1, WPD's base revenue decreased by 11.8% compared to the final year of the prior price control period (DPCR5), primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base revenue then increases by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2018 and by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

(7) Incentives for developing high-quality business plans (known as fast-tracking) - For RIIO-ED1, Ofgem incentivized DNOs with certain financial rewards to develop "well justified" business plans that drive value to customers. WPD was awarded the following incentives for being fast-tracked by Ofgem:

- an annual fast-track revenue incentive worth 2.5% of Totex (approximately £25 million annually for WPD);
- a real cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs; and,
- cost savings retention was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs.

(8) Allowed Revenue - Allowed revenue is the amount that a DNO can collect from its customers in order to fund its investment requirements.

Base revenues are adjusted annually during RIIO-ED1 to arrive at allowed revenues. These adjustments are discussed in sections (9) through (13) below.

(9) MOD and Inflation True-Up (TRU)

MOD - RIIO-ED1 includes an AIP that allows future base revenues, agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including taxes, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). The AIP calculates an incremental change to base revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.
- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year is a £39 million reduction to revenue and will reduce base revenue in calendar years 2018 and 2019 by £26 million and £13 million.
- The projected MOD for the 2017/18 regulatory year is a £45 million reduction to revenue and is expected to reduce base revenue in calendar years 2019 and 2020 by £30 million and £15 million.

TRU - As discussed below in "*(10) Inflation adjusted, multi-year rate cycle*," the base revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base revenue. Forecasted RPI is trued up to actuals and affects future base revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue and reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue and will reduce base revenue in calendar years 2018 and 2019 by £4 million and £2 million.
- The projected TRU for the 2017/18 regulatory year is a £5 million increase to revenue and is expected to increase base revenue in calendar years 2019 and 2020 by £3 million and £2 million.

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As both MOD and TRU are changes to future base revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers. PPL's projected earnings per share growth rate through 2020 includes both the TRU and MOD for regulatory years 2015/16 and 2016/17 and the estimated TRU and MOD for 2017/18.

(10) Inflation adjusted, multi-year rate cycle - Ofgem built its price control framework to better coincide with the long-term nature of electricity distribution investments. The current price control for electricity distribution is for the eight-year period from April 1, 2015 through March 31, 2023. This both required and enabled WPD to design a base business plan with predictable revenues and expenses over the long-term to drive value for its customers through predetermined outputs and for its investors through preset base returns. A key aspect to the multi-year cycle is an annual inflation adjustment for revenue and cost components, which are inflated using RPI from the base 2012/13 prices used to establish the business plans. Consistent with Ofgem's formulas, the inflation adjustment is applied to base revenue, MOD and TRU when determining allowed revenue. This inflation adjustment also has the effect of inflating RAV, and real returns are earned on the inflated RAV.

(11) Incentive revenues for strong operational performance and innovation - Ofgem has established incentives to provide opportunities for DNOs to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. Some of the more significant incentives that may affect allowed revenue include the Interruptions Incentive Scheme (IIS), the broad measure of customer service (BMCS) and the time to connect (TTC) incentive:

- The IIS has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages.
- The BMCS encompasses customer satisfaction in supply interruptions, connections and general inquiries, complaints, stakeholder engagement and delivery of social obligations.
- The TTC incentive rewards DNOs for reducing connection times for minor connections against an Ofgem set target.

The annual incentives and penalties are reflected in customer rates on a two-year lag from the time they are earned and/or assessed. Based on applicable GAAP, incentive revenues and penalties are recorded in revenues when they are billed to customers. The following table shows the amount of incentive revenues (in total), primarily from IIS, BMCS and TTC that WPD has received and is projected to receive on a calendar year basis:

Calendar Year Ended Incentive Earned	Incentive Received (in millions)	Calendar Year Ended Incentive Included in Revenue
2014	£ 83	2016
2015	79	2017
2016	76	2018
2017 (a)	65-80	2019
2018 (a)	70-85	2020

(a) Reflects projected incentive revenues.

(12) Correction Factor (K-factor) - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could over-recover revenue. Over- and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts during RIIO-ED1 will be refunded/recovered two regulatory years later. The K-factors created in the 2016/17 and 2015/16 regulatory years were not significant.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for the 2016/17 and 2017/18 regulatory years. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

(13) Other Allowed Revenue - Other Allowed Revenue primarily consists of pass through true-ups and £5 per residential customer reduction. For a discussion on property tax true-ups, see recovery of pass through costs in "(6) Other revenue included in base revenue" above.

In the 2016/17 regulatory year, WPD recovered a £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected in calendar years 2017 and 2016 by £13 million and £25 million.

(14) GAAP Operating Revenue - Operating revenue under GAAP primarily consists of allowed revenue that has been collected in the calendar year converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD's Telecoms and Property companies. For additional information on ancillary activity revenue, see footnote c in "Item 7. Combined Management's Discussion and Analysis of Financial Conditions and Results of Operation - Reconciliation of Margins." The amounts of miscellaneous revenue for 2017 and 2016 were £90 million and £84 million, however, the margin or profit on these activities was not significant.

(15) Currency Hedging - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Overview- Financial and Operational Developments - U.K. Membership in European Union" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of U.K. earnings hedging activity.

GAAP Accounting implications:

As the regulatory model in the U.K. is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment for the accelerated recovery of depreciation, pension deficit funding, cost of debt recovery, income tax recovery and the adjustments to base revenue and/or allowed revenue is evaluated primarily based on revenue recognition guidance.

See "Revenue Recognition" in Note 1 to the Financial Statements for additional information.

See "Item 1A. Risk Factors - Risks related to our U.K. Regulated Segment" for additional information on the risks associated with the U.K. Regulated Segment.

• ***Kentucky Regulated Segment (PPL)***

Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 411,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 326,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 525,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and three customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 10 municipalities in Kentucky under load following contracts.

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Details of operating revenues, in millions, by customer class for the years ended December 31 are shown below.

	2017		2016		2015	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	\$ 854	27	\$ 834	27	\$ 816	26
Industrial	603	19	601	19	628	20
Residential	1,259	40	1,261	40	1,245	40
Other (a)	280	9	288	9	267	9
Wholesale - municipal	112	4	116	4	114	4
Wholesale - other (b)	48	1	41	1	45	1
Total	\$ 3,156	100	\$ 3,141	100	\$ 3,115	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues.

	2017		2016		2015	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	\$ 453	31	\$ 442	31	\$ 436	30
Industrial	187	13	185	13	199	14
Residential	637	44	627	44	633	44
Other (a)	123	8	135	9	117	8
Wholesale - other (b)	53	4	41	3	59	4
Total	\$ 1,453	100	\$ 1,430	100	\$ 1,444	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

	2017		2016		2015	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
KU						
Commercial	\$ 401	23	\$ 392	22	\$ 380	22
Industrial	416	24	416	24	429	25
Residential	622	36	634	36	612	35
Other (a)	157	9	153	9	150	9
Wholesale - municipal	112	6	116	7	114	7
Wholesale - other (b)	36	2	38	2	43	2
Total	\$ 1,744	100	\$ 1,749	100	\$ 1,728	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently

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be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels indirectly impact LG&E's natural gas revenues. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact LG&E's profitability. Some large industrial and commercial customers, however, may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

Power Supply

At December 31, 2017, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,017 MW, of which 2,920 MW related to LG&E and 5,097 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2017, LKE's power plants generated the following amounts of electricity.

Fuel Source	GWh		
	LKE	LG&E	KU
Coal (a)	28,519	12,161	16,358
Gas	4,625	1,105	3,520
Hydro	337	278	59
Solar	18	7	11
Total (b)	33,499	13,551	19,948

(a) Includes 794 GWh of power generated by and purchased from OVEC for LKE, 549 GWh for LG&E and 245 GWh for KU.

(b) This generation represents a 3.7% decrease for LKE, a 0.3% increase for LG&E and a 6.3% decrease for KU from 2016 output.

The majority of LG&E's and KU's generated electricity was used to supply their retail and KU's municipal customer base.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail and municipal customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa.

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

In 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site. Additionally, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. As of December 31, 2017, LG&E and KU have not yet constructed the first solar share facility and are actively marketing the program and continue to receive interest from customers.

In 2015, KU retired two coal-fired units, with a combined capacity of 161 MW, at the Green River plant. Additionally, LG&E retired three coal-fired units with a combined capacity of 563 MW, at the Cane Run plant.

Fuel Supply

Coal and natural gas will continue to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

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Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2023 and augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana and southern Illinois. LG&E and KU continue to purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at Trimble County Unit 2. Coal is delivered to the generating plants primarily by barge and rail.

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2019 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as four other simple cycle units at the Cane Run and Paddy's Run sites. LG&E has also secured long-term firm pipeline transport capacity on an interstate pipeline for the summer months through October 2018 to serve an additional simple cycle gas turbine operated under a tolling agreement that ends April 30, 2019. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 for delivery in future months. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services can be expected to be at their highest. At December 31, 2017, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$43 million.

LG&E has a portfolio of supply arrangements of varying durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2020 and 2023. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

LG&E expects to purchase natural gas supplies for its gas distribution operations from onshore producing regions in South Texas, East Texas, North Louisiana and Arkansas, as well as gas originating in the Marcellus and Utica production areas.

(PPL, LKE, LG&E and KU)

Transmission

LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator and contract with TranServ International, Inc. to act as their independent transmission organization.

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Rates

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC and the VSCC. LG&E and KU operate under a FERC-approved open access transmission tariff.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets in Kentucky.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, nine municipalities submitted notices of termination, under the notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality that terminated service in 2017.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of \$59 million, LG&E base gas rates of \$8 million and KU base electricity rates of \$55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of \$57 million, LG&E base gas rates of \$7 million, KU base electricity rates of \$52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

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(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

TCJA Impact on LG&E and KU Rates

(PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues, \$69 million in LG&E electricity revenues and \$17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

LG&E and KU cannot predict the outcome of these proceedings.

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

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• **Pennsylvania Regulated Segment (PPL)**

Consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply to retail customers in this area as a PLR under the Customer Choice Act.

Details of revenues, in millions, by customer class for the years ended December 31 are shown below.

	2017		2016		2015	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	\$ 1,351	62	\$ 1,327	61	\$ 1,338	63
Industrial	44	2	42	2	58	3
Commercial	349	16	338	16	377	18
Other (a)	(36)	(2)	(4)	—	(44)	(2)
Transmission	487	22	453	21	395	18
Total	\$ 2,195	100	\$ 2,156	100	\$ 2,124	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues and street lighting, offset by contra revenue associated with the network integration transmission service expense.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies, which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity distribution business. Pursuant to the Customer Choice Act, generation of electricity is a competitive business in Pennsylvania, and PPL Electric does not own or operate any generation facilities.

The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM.

Rates and Regulation

Transmission

PPL Electric's transmission facilities are within PJM, which operates the electricity transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved Regional Transmission Operator (RTO) to promote greater participation and competition in the region it serves. In addition to operating the electricity transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities. Certain types of transmission investment are subject to competitive processes outlined in the PJM tariff.

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As a transmission owner, PPL Electric's transmission revenues are recovered through PJM and billed in accordance with a FERC-approved Open Access Transmission Tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability. Any change in the prior year PPL zonal peak load billing factor applied on January 1st of each year, will result in an increase or decrease in revenue until the next annual rate update goes into effect on June 1st of that same year.

As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

See Note 6 to the Financial Statements for additional information on rate mechanisms.

Distribution

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base; therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

Pennsylvania's Alternative Energy Portfolio Standard (AEPS) requires electricity distribution companies and electricity generation suppliers to obtain from alternative energy resources a portion of the electricity sold to retail customers in Pennsylvania. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 created an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct and changes to the existing AEPS.

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. PPL Electric has utilized the fully projected future test year mechanism in its 2015 base rate proceeding. PPL has had the ability to utilize the DSIC recovery mechanism since July 2013.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2017, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 46% of residential, 85% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities - Act 129" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which included 4 solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of 8 solicitations for electricity supply held semiannually in April and October. Pursuant to both the current and future plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-

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month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Since the cost of generation supply is a pass-through cost for PPL Electric, its financial results are not impacted if its customers purchase electricity supply from these alternative suppliers.

TCJA Impact on PPL Electric Rates

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

(PPL)

- **Corporate and Other**

PPL Services provides PPL subsidiaries with administrative, management and support services. The costs of these services are charged directly to the respective recipients for the services provided or indirectly charged to applicable recipients based on an average of the recipients' relative invested capital, operation and maintenance expenses and number of employees or a ratio of overall direct and indirect costs.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries. PPL's growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to utilize PPL Capital Funding as a source of capital in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky Regulated and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances beginning in 2013, with certain exceptions, have not been directly assigned or allocated to any segment.

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL's shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the

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number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

See Note 8 to the Financial Statements for additional information.

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when unpredictable weather conditions make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Environmental Matters" in Note 13 to the Financial Statements for additional information regarding climate change.

FINANCIAL CONDITION

See "Financial Condition" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2018 through 2022. See Note 13 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2018 through 2022. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information and Note 6 to the Financial Statements for information related to the recovery of environmental compliance costs.

EMPLOYEE RELATIONS

At December 31, 2017, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions.

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,512	6,113	49%
PPL Electric	1,755	1,084	62%
LKE	3,470	782	23%
LG&E	986	660	67%
KU	910	122	13%

PPL's domestic workforce has 2,001 employees, or 34%, that are members of labor unions.

WPD has 4,112 employees who are members of labor unions (or 62% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 42% of its union workforce. WPD's Electricity Business Agreement, which covers 4,047 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

CYBERSECURITY MANAGEMENT

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has undertaken a variety of actions to monitor and address cyber-related risks. Cybersecurity and the effectiveness of PPL's cybersecurity strategy are regular topics of discussion at Board and Audit Committee meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within the company's enterprise risk management processes. PPL's Chief Information Security Officer (CISO), who reports directly to the Chief Executive Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. Among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization to strengthen secure behavior. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition to these enterprise-wide initiatives, PPL's Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by FERC to protect grid security and reliability. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investors heading of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

(PPL)

Risks related to our U.K. Segment

Our U.K. distribution business contributes a significant amount of PPL's earnings and exposes us to the following additional risks related to operating outside the U.S., including risks associated with changes in U.K. laws and regulations, taxes, economic conditions and political conditions and policies of the U.K. government and the European Union. These risks may adversely impact the results of operations of our U.K. distribution business or affect our ability to access U.K. revenues for payment of distributions or for other corporate purposes in the U.S.

- changes in laws or regulations relating to U.K. operations, including rate regulations, operational performance and tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for DNOs, including the potential RIIO-EDI mid-period review currently being evaluated by Ofgem, with a decision as to whether to engage in such a review and the scope thereof to be announced in the spring of 2018;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings;
- compliance with U.S. foreign corrupt practices laws; and
- prolonged periods of low inflation or deflation.

PPL's earnings may be adversely affected as a result of the March 2017 formal notification by the U.K. of its intent to withdraw from the European Union.

Significant uncertainty continues to exist concerning the effects of the March 2017 formal notification by the U.K. of its intent to withdraw from the European Union, including the duration and outcome of negotiations between the U.K. and European Union as to the terms of the withdrawal. PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or PPL's long-term financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the European Union, although such impacts could be significant.

We are subject to foreign currency exchange rate risks because a significant portion of our cash flows and reported earnings are currently generated by our U.K. business operations.

These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses, and our strategy to hedge against such changes, and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed to PPL or used for repayments of intercompany loans or other general corporate purposes. In addition, PPL's consolidated reported earnings on a GAAP basis may be subject to earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with GAAP requirements.

Our U.K. segment is subject to inflationary risks.

Our U.K. distribution business is subject to the risks associated with fluctuations in RPI in the U.K., which is a measure of inflation.

In RIIO-ED1, WPD's base demand revenue was established by Ofgem based on 2012/13 prices. Base demand revenue is subsequently adjusted to reflect any increase or decrease in RPI for each year to determine the amount of revenue WPD can collect in tariffs. The RPI is forecasted annually by HM Treasury and subject to true-up in subsequent years. Consequently, the fluctuations between forecasted and actual RPI can result in variances in base demand revenue. Although WPD also has debt that is indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base demand revenue and timing of such offsets would likely not be correlated precisely with the calendar year in which the variance in demand revenue was initially incurred. Further, as RAV is indexed to RPI under U.K. rate regulations, a reduction in RPI could adversely affect a borrower's debt-to-RAV ratio, potentially limiting future borrowings at WPD's holding company.

Our U.K. delivery business is subject to revenue variability based on operational performance.

Our U.K. delivery businesses operate under an incentive-based regulatory framework. Managing operational risk and delivering agreed-upon performance are critical to the U.K. Regulated segment's financial performance. Disruption to these distribution networks could reduce profitability both directly by incurring costs for network restoration and also through the system of penalties and rewards that Ofgem administers relating to customer service levels.

A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL.

Ofgem has powers to levy fines of up to ten percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Ofgem also has formal powers to propose modifications to each distribution license and there can be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

Risks Related to All Segments

(All Registrants)

The operation of our businesses is subject to cyber-based security and integrity risks.

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our transmission and distribution operations, as well as our generation plants, are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or criminals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and sensitive customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation. In addition, under the Energy Policy Act of 2005, users, owners and operators of the bulk power transmission system, including PPL Electric, LG&E and KU, are subject to mandatory reliability standards promulgated by NERC and SERC and enforced by FERC. As the operator of natural gas distribution systems, LG&E is also subject to mandatory reliability standards of the U.S. Department of Transportation. Failure to comply with such standards could result in the imposition of fines or civil penalties, and potential exposure to third party claims for alleged violations of such standards.

We are subject to risks associated with federal and state tax laws and regulations.

Changes in tax law, including the recent enactment of the TCJA, as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts, franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict changes in tax law or regulation or the effect of any such changes on our businesses. Any such changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

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The TCJA had a significant impact on our 2017 financial statements and expected future operating cash flows. We have completed or made reasonable estimates of the effects of the TCJA reflected in our December 31, 2017 financial statements, but we continue to evaluate the application of various components of the law in the calculation of income tax expense.

Increases in electricity prices and/or a weak economy, can lead to changes in legislative and regulatory policy, including the promotion of energy efficiency, conservation and distributed generation or self-generation, which may adversely impact our business.

Energy consumption is significantly impacted by overall levels of economic activity and costs of energy supplies. Economic downturns or periods of high energy supply costs can lead to changes in or the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency, alternative and renewable energy sources, and distributed or self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could adversely affect our business.

We could be negatively affected by rising interest rates, downgrades to our credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit.

A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.

Credit ratings assigned by Moody's and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the financial impact of a downgrade in our credit ratings.

Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results may fluctuate substantially on a seasonal basis if weather conditions diverge adversely from seasonal norms.

Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods, and other climatic events, could disrupt our operations and cause us to incur significant costs to prepare for or respond to these effects. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Federal Matters" in Note 6 to the Financial Statements and "Legal Matters," "Regulatory Issues" and "Environmental Matters" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

We may incur liabilities in connection with discontinued operations.

In connection with various divestitures, and certain other transactions, we have indemnified or guaranteed parties against certain liabilities. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated a divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture. See "Guarantees and Other Assurances" in Note 13 to the Financial Statements.

We are subject to liability risks relating to our generation, transmission and distribution operations.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs, which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

We are required to obtain, and to comply with, government permits and approvals.

We are required to obtain, and to comply with, numerous permits, approvals, licenses and certificates from governmental agencies. The process of obtaining and renewing necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. In addition, such permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with any applicable laws or regulations, may result in the delay or temporary suspension of our operations and electricity sales or the curtailment of our power delivery and may subject us to penalties and other sanctions. Although various regulators routinely renew existing licenses, renewal could be denied or jeopardized by various factors, including failure to provide adequate financial assurance for closure; failure to comply with environmental, health and safety laws and regulations or permit conditions; local community, political or other opposition; and executive, legislative or regulatory action.

Our cost or inability to obtain and comply with the permits and approvals required for our operations could have a material adverse effect on our operations and cash flows. In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. In addition to the possible imposition of fines in such cases, we may be required to undertake significant capital investments in pollution control technology and obtain additional operating permits or approvals, which could have an adverse impact on our business, results of operations, cash flows and financial condition.

War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets and have contributed to high levels of volatility in prices for oil and gas. In addition, unrest in the Middle East could lead to acts of terrorism in the United States, the United Kingdom or elsewhere, and acts of terrorism could be directed against companies such as ours. Armed conflicts and terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future. In addition, we may incur increased costs for security, including additional physical plant security and security personnel or additional capability following a terrorist incident.

We are subject to counterparty performance, credit or other risk in their provision of goods or services to us, which could adversely affect our ability to operate our facilities or conduct business activities.

We purchase from a variety of suppliers energy, capacity, fuel, natural gas, transmission service and certain commodities used in the physical operation of our businesses, as well as goods or services, including information technology rights and services, used in the administration of our businesses. Delivery of these goods and services is dependent on the continuing operational performance and financial viability of our contractual counterparties and also the markets, infrastructure or third-parties they use to provide such goods and services to us. As a result, we are subject to the risks of disruptions, curtailments or increased costs in the operation of our businesses if such goods or services are unavailable or become subject to price spikes or if a counterparty fails to perform. Such disruptions could adversely affect our ability to operate our facilities or deliver our services and collect our revenues, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations. The performance of coal markets and producers may be the subject of increased counterparty risk to LKE, LG&E and KU currently due to weaknesses in such markets and suppliers. The coal industry is subject to increasing competitive pressures from natural gas markets and new or more stringent environmental regulation, including greenhouse gases or other air emissions, combustion byproducts and water inputs or discharges. Consequently, the coal industry faces increased production costs or closed customer markets.

We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.

We are experiencing an increase in attrition due primarily to the number of retiring employees, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel, and to attract and retain new personnel, with appropriate skills and experience, due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

(PPL and LKE)

Risk Related to Registrant Holding Companies

PPL and LKE are holding companies and their cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their respective subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by their subsidiaries. Accordingly, these Registrants' cash flows and ability to meet debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans, advances or repayment of loans and advances. The subsidiaries are separate legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of the Registrants' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's and LKE's rights and the rights of their creditors, including rights of debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts.

(PPL Electric, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to each of the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request and existing rates may be challenged.

The rates we charge our utility customers must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Although rate regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full or timely recovery of our costs or an adequate return on our capital investments. Federal or state agencies, intervenors and other permitted parties may challenge our current or future rate requests, structures or mechanisms, and ultimately reduce, alter or limit the rates we receive. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our domestic regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our domestic utility businesses are subject to significant and complex governmental regulation.

In addition to regulating the rates we charge, various federal and state regulatory authorities regulate many aspects of our domestic utility operations, including:

- the terms and conditions of our service and operations;

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- financial and capital structure matters;
- siting, construction and operation of facilities;
- mandatory reliability and safety standards under the Energy Policy Act of 2005 and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate transactions;
- acquisition and disposal of utility assets and issuance of securities; and
- various other matters, including energy efficiency.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties which may not be recoverable from customers.

Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates; and
- contractor performance.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

We are or may be subject to costs of remediation of environmental contamination at facilities owned or operated by our former subsidiaries.

We may be subject to liability for the costs of environmental remediation of property now or formerly owned by us with respect to substances that we may have generated regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. We also have current or previous ownership interests in sites associated with the production of manufactured gas for which we may be liable for additional costs related to investigation, remediation and monitoring of these sites. Remediation activities associated with our former manufactured gas plant operations are one source of such costs. Citizen groups or others may bring litigation regarding environmental issues including claims of various types, such as property damage, personal injury and citizen challenges to compliance decisions on the enforcement of environmental requirements, which could subject us to penalties, injunctive relief and the cost of litigation. We cannot predict the amount and timing of all future expenditures (including the potential or magnitude of fines or penalties) related to such environmental matters, although they could be material.

Risks Specific to Kentucky Regulated Segment

(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid wastes, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are

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also applicable to the operations of our key suppliers or customers, such as coal producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our related compliance strategies entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require new technologies or aggressive schedules for construction, permitting and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

We are subject to operational, regulatory and other risks regarding certain significant developments in environmental regulation affecting coal-fired generation facilities.

Certain regulatory initiatives have been implemented or are under development which could represent significant developments or changes in environmental regulation and compliance costs or risk associated with the combustion of coal as occurs at LG&E's and KU's coal-fired generation facilities. In particular, such developments include the federal Coal Combustion Residuals regulations governing coal by-product storage activities and the federal Effluent Limitations Guidelines governing water discharge activities. Such initiatives have the potential to require significant changes in generation portfolio composition and in coal combustion byproduct handling and disposal or water treatment and release facilities and methods from those historically used or currently available. Consequently, such developments may involve increased risks relating to the uncertain cost, efficacy and reliability of new technologies, equipment or methods. Compliance with such regulations could result in significant changes to LG&E's and KU's operations or commercial practices and material additional capital or operating expenditures. Such circumstances could also involve higher risks of compliance violations or of variations in rate or regulatory treatment when compared to existing frameworks.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

We plan to selectively pursue growth of our transmission capacity, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to pursue expansion of our transmission capacity over the next several years. We plan to do this through the potential construction or acquisition of transmission projects and capital investments to upgrade transmission infrastructure. These types of projects involve numerous risks. With respect to the construction or acquisition of transmission projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory construction contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project.

We face competition for transmission projects, which could adversely affect our rate base growth.

FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities. The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM. Increased competition can result in lower rate base growth.

We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.

PPL Electric is subject to Act 129 which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing Alternative Energy Portfolio Standard. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand. Utilities not meeting these Act 129 requirements are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

Other

(PPL)

Risks Relating to the Spinoff of PPL Energy Supply and Formation of Talen Energy Corporation

If the spinoff of PPL Energy Supply does not qualify as a tax-free distribution under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the "Code"), including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareowners may be required to pay substantial U.S. federal income taxes.

Among other requirements, the completion of the June 1, 2015 spinoff of PPL Energy Supply and subsequent combination with RJS Power was conditioned upon PPL's receipt of a legal opinion of tax counsel to the effect that the spinoff will qualify as a reorganization pursuant to Section 368(a)(1)(D) and a tax-free distribution pursuant to Section 355 of the Code. Although receipt of such legal opinion was a condition to completion of the spinoff and subsequent combination, that legal opinion is not binding on the IRS. Accordingly, the IRS could reach conclusions that are different from those in the tax opinion. If, notwithstanding the receipt of such opinion, the IRS were to determine the distribution to be taxable (including as a result of the subsequent acquisition of Talen Energy by affiliates of Riverstone on December 6, 2016 (the "Talen Acquisition")), PPL would, and its shareowners could, depending on their individual circumstances, recognize a tax liability that could be substantial. In addition, notwithstanding the receipt of such opinion, if the IRS were to determine the merger to be taxable (including as a result of the Talen Acquisition), PPL shareowners may, depending on their individual circumstances, recognize a tax liability that could be material.

In addition, the spinoff would be taxable to PPL pursuant to Section 355(e) of the Code if there were a 50% or greater change in ownership (by vote or value) of either PPL or Talen Energy (including as a result of the Talen Acquisition), directly or indirectly, as part of a plan or series of related transactions that include the spinoff. Because PPL's shareowners collectively owned more than 50% of Talen Energy's common stock following the spinoff and combination with RJS Power, the combination alone would not cause the spinoff to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the spinoff, or of Talen Energy after the combination (including the Talen Acquisition), were considered to be part of a plan or series of related transactions that include the spinoff. PPL is not aware of any such plan or series of transactions that include the spinoff.

In connection with the closing of the Talen Acquisition, Talen Energy was required to deliver to PPL a legal opinion of tax counsel concluding that the Talen Acquisition would not affect the tax-free status of the spinoff. As described above, such legal opinion is not binding on the IRS, and accordingly, the IRS could reach conclusions that are different from those expressed in the legal opinion.

ITEM 1B. UNRESOLVED STAFF COMMENTS

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2017, WPD's distribution system in the U.K. includes 1,877 substations with a total capacity of 73 million kVA, 56,080 circuit miles of overhead lines and 83,465 underground cable miles.

Kentucky Regulated Segment (PPL, LKE, LG&E and KU)

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2017 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE	LG&E		KU	
		Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW
Coal						
Ghent - Units 1- 4	1,919	1,919			100.00	1,919
Mill Creek - Units 1- 4	1,465	1,465	100.00	1,465		
E.W. Brown - Units 1-3	681	681			100.00	681
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50	29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50	24
	<u>7,410</u>	<u>5,157</u>		<u>2,059</u>		<u>3,098</u>
Natural Gas/Oil						
E.W. Brown Unit 5 (c)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (c)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
Cane Run Unit 11	14	14	100.00	14		
	<u>2,756</u>	<u>2,756</u>		<u>794</u>		<u>1,962</u>
Hydro						
Ohio Falls - Units 1-8	64	64	100.00	64		
Dix Dam - Units 1-3	32	32			100.00	32
	<u>96</u>	<u>96</u>		<u>64</u>		<u>32</u>
Solar						
E.W. Brown Solar (d)	8	8	39.00	3	61.00	5
Total	<u>10,270</u>	<u>8,017</u>		<u>2,920</u>		<u>5,097</u>

- (a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.
- (b) These units are owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of these units' total output and LG&E and KU fund their proportionate share of fuel and other operating costs, including debt service. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 13 to the Financial Statements for additional information.
- (c) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

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(d) This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2017, LG&E's transmission system included in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 97 substations (31 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,892 circuit miles of overhead lines and 2,553 underground cable miles. KU's transmission system included 142 substations (60 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,066 pole miles of lines. KU's distribution system included 469 substations (60 of which are shared with the transmission system) with a total capacity of 7 million kVA, 14,016 circuit miles of overhead lines and 2,484 underground cable miles.

LG&E's natural gas transmission system includes 4,310 miles of gas distribution mains and 396 miles of gas transmission mains, consisting of 260 miles of gas transmission pipeline, 117 miles of gas transmission storage lines, 18 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. As of December 31, 2017, LG&E and KU have not yet constructed the first solar share facility and are actively marketing the program and continue to receive interest from customers.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric has electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2017, PPL Electric's transmission system includes 49 substations with a total capacity of 28 million kVA and 5,400 circuit miles in service. PPL Electric's distribution system includes 351 substations with a total capacity of 14 million kVA, 37,195 circuit miles of overhead lines and 8,549 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

See Note 8 to the Financial Statements for information on the Regional Transmission Line Expansion Plan.

ITEM 3. LEGAL PROCEEDINGS

See Notes 5, 6 and 13 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND
ISSUER PURCHASES OF EQUITY SECURITIES**

See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for all Registrants.

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2018, there were 55,409 common stock shareowners of record.

Issuer Purchase of Equity Securities during the Fourth Quarter of 2017.

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs	Maximum Number (or Approximate Dollar Value) of Shares(or Units) that May Yet Be Purchased Under the Plans or Programs (1)
October 1 to October 31, 2017				
November 1 to November 30, 2017				
December 1 to December 31, 2017	6,956	\$ 36.27		
Total	6,956	\$ 36.27		

(1) Represents shares of common stock withheld by PPL at the request of its executive officers to pay income taxes upon the vesting of the officer's restricted stock awards, as permitted under the terms of PPL's ICP.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$336 million in 2017 and \$288 million in 2016.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$402 million in 2017 and \$316 million in 2016.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$192 million in 2017 and \$128 million in 2016.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$226 million in 2017 and \$248 million in 2016.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2017	2016	2015	2014	2013
Income Items (in millions)					
Operating revenues	\$ 7,447	\$ 7,517	\$ 7,669	\$ 7,852	\$ 7,263
Operating income	3,068	3,048	2,831	2,867	2,561
Income from continuing operations after income taxes attributable to PPL shareowners	1,128	1,902	1,603	1,437	1,368
Income (loss) from discontinued operations (net of income taxes) (f)	—	—	(921)	300	(238)
Net income attributable to PPL shareowners (f)	1,128	1,902	682	1,737	1,130
Balance Sheet Items (in millions)					
Total assets (d)	41,479	38,315	39,301	48,606	45,889
Short-term debt (d)	1,080	923	916	836	701
Long-term debt (d)	20,195	18,326	19,048	18,054	18,269
Common equity (d)	10,761	9,899	9,919	13,628	12,466
Total capitalization (d)	32,036	29,148	29,883	32,518	31,436
Financial Ratios					
Return on common equity - % (d)(f)	10.9	19.2	5.8	13.0	9.8
Ratio of earnings to fixed charges (c)	3.1	3.8	2.8	2.8	2.4
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	693,398	679,731	673,857	665,849	630,321
Weighted-average	685,240	677,592	669,814	653,504	608,983
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	\$ 1.64	\$ 2.80	\$ 2.38	\$ 2.19	\$ 2.24
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	\$ 1.64	\$ 2.79	\$ 2.37	\$ 2.16	\$ 2.12
Net income available to PPL common shareowners - Basic EPS	\$ 1.64	\$ 2.80	\$ 1.01	\$ 2.64	\$ 1.85
Net income available to PPL common shareowners - Diluted EPS	\$ 1.64	\$ 2.79	\$ 1.01	\$ 2.61	\$ 1.76
Dividends declared per share of common stock	\$ 1.58	\$ 1.52	\$ 1.50	\$ 1.49	\$ 1.47
Book value per share (d)	\$ 15.52	\$ 14.56	\$ 14.72	\$ 20.47	\$ 19.78
Market price per share	\$ 30.95	\$ 34.05	\$ 34.13	\$ 36.33	\$ 30.09
Dividend payout ratio - % (e)(f)	96	55	149	57	84
Dividend yield - % (g)	5.1	4.5	4.4	4.1	4.9
Price earnings ratio (e)(f)(g)	18.9	12.2	33.8	13.9	17.1
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,084	2,177	2,241	2,365	2,383
Domestic - Electric energy delivered - retail	65,751	67,474	67,798	68,569	67,848
U.K. - Electric energy delivered	74,317	74,728	75,907	75,813	78,219

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2017, 2016 and 2015. The earnings for 2015, 2014 and 2013 were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for a discussion of discontinued operations in 2015.
- (b) See "Item 1A. Risk Factors" and Notes 1, 6 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short and long-term debt, amortization of debt discount, expense and premium-net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.
- (d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a \$3.2 billion related dividend.
- (e) Based on diluted EPS.
- (f) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014 and 2013.
- (g) Based on year-end market prices.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 6 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2017 with 2016 and 2016 with 2015. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

For a description of the Registrants and their businesses, see "Item 1. Business."

Business Strategy

(All Registrants)

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL completed its strategic transformation to a fully regulated business model operating seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K., driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and

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KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital outlay to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment declined mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth in 2018 through at least 2020. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants are:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and

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- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

As a result, PPL expects cash flows at its domestic utilities to decline as the benefit of the lower U.S. federal corporate income tax rate is passed through to its utility customers. In addition, as PPL is not a current federal tax payer because of available net operating loss carry forwards, there is no immediate corporate cash benefit associated with the lower tax rate. The lack of cash benefit resulted in degradation of PPL's projected financial credit metrics. In an effort to maintain its current credit rating, PPL, among other things, currently plans to issue about \$1 billion of equity in 2018. This compares to PPL's actual 2017 equity issuances of \$482 million.

The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 321	\$ (13)	\$ 112	\$ —	\$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

At the date of enactment, the Registrants' deferred taxes were remeasured based upon the new U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The rate reduction on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 220	\$ (13)	\$ 112	\$ —	\$ —

For PPL's U.S. regulated operations, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	\$ 2,185	\$ 1,019	\$ 1,166	\$ 532	\$ 634

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was \$101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

See Note 5 to the Financial Statements for additional information.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European

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Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of February 20, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.34 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 35% hedged for 2020 at an average rate of \$1.46 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL)

RIIO-2 Framework Review

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter were published in September 2017 and will be used to guide the full RIIO-2 framework consultation which is expected to be published in March of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO framework allows for a MPR of outputs halfway through the price control. Ofgem is consulting on three potential approaches:

- whether to implement a MPR as currently defined;
- whether to implement a MPR with an extension for WPD rail electrification; and
- whether to implement a MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication is that a MPR as currently defined under RIIO-ED1 is not required. In addition, Ofgem recognized that the rail electrification is outside the scope of the MPR and that implementing a MPR to include financial parameters could undermine the stability of the regulatory regime. The consultation, however, requests interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses have been submitted by PPL and WPD. A decision on whether to

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proceed with a MPR is expected in spring 2018. If Ofgem decides to launch a MPR, it will consult on detailed proposals in summer 2018 and any associated changes to DNO licenses would be in place by April 1, 2019. Although, PPL cannot predict the outcome of the consultation process, a MPR is not expected to have a significant impact on PPL's financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, ELGs and the Clean Power Plan. See Note 6, Note 13 and Note 19 to the Financial Statements for a discussion of these significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015. Additionally, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

Also as a result of the environmental requirements discussed above, LKE projects \$828 million (\$335 million at LG&E and \$493 million at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 6 and Note 13 for additional information.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of \$59 million, LG&E base gas rates of \$8 million and KU base electricity rates of \$55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of \$57 million, LG&E base gas rates of \$7 million, KU base electricity rates of \$52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a

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settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues, \$69 million in LG&E electricity revenues and \$17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

LG&E and KU cannot predict the outcome of these proceedings.

TCJA Impact on PPL Electric Rates (PPL and PPL Electric)

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

Discontinued Operations (PPL)

The operations of PPL's Supply segment prior to its June 1, 2015 spinoff are included in "Loss from Discontinued Operations (net of income taxes)" on the 2015 Statement of Income.

See Note 8 to the Financial Statements for additional information related to the spinoff of PPL Energy Supply, including the components of Discontinued Operations.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing year-to-year changes. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating Revenues	\$ 7,447	\$ 7,517	\$ 7,669	\$ (70)	\$ (152)
Operating Expenses					
Operation					
Fuel	759	791	863	(32)	(72)
Energy purchases	685	706	855	(21)	(149)
Other operation and maintenance	1,635	1,745	1,938	(110)	(193)
Depreciation	1,008	926	883	82	43
Taxes, other than income	292	301	299	(9)	2
Total Operating Expenses	4,379	4,469	4,838	(90)	(369)
Other Income (Expense) - net	(255)	390	108	(645)	282
Interest Expense	901	888	871	13	17
Income Taxes	784	648	465	136	183
Income from Continuing Operations After Income Taxes	1,128	1,902	1,603	(774)	299
Loss from Discontinued Operations (net of income taxes)	—	—	(921)	—	921
Net Income	\$ 1,128	\$ 1,902	\$ 682	\$ (774)	\$ 1,220

Operating Revenues

The increase (decrease) in operating revenues was due to:

	2017 vs. 2016	2016 vs. 2015
Domestic:		
PPL Electric Distribution price (a)	\$ 53	\$ 126
PPL Electric Distribution volume	(21)	(9)
PPL Electric PLR Revenue (b)	(16)	(135)
PPL Electric Transmission Formula Rate	34	59
LKE Base rates	58	68
LKE Volumes (c)	(73)	1
LKE Fuel and other energy prices (d)	10	(81)
LKE ECR	10	39
Other	(9)	(17)
Total Domestic	46	51
U.K.:		
Price	60	98
Volume	(30)	(36)
Foreign currency exchange rates	(154)	(255)
Other	8	(10)
Total U.K.	(116)	(203)
Total	\$ (70)	\$ (152)

- (a) Distribution rider prices resulted in an increase of \$47 million in 2017 compared with 2016. Distribution rate case effective January 1, 2016, resulted in an increase of \$160 million in 2016 compared with 2015.
- (b) Decrease in 2016 compared with 2015 was primarily due to lower energy purchase prices.
- (c) Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.
- (d) Decrease in 2016 compared with 2015 was due to lower recoveries of fuel and energy purchases due to lower commodity costs.

Fuel

Fuel decreased \$32 million in 2017 compared with 2016 primarily due to a decrease in fuel usage driven by milder weather in 2017.

Fuel decreased \$72 million in 2016 compared with 2015 primarily due to a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased \$21 million in 2017 compared with 2016 primarily due to lower PLR prices of \$17 million.

Energy purchases decreased \$149 million in 2016 compared with 2015 primarily due to a \$124 million decrease in PLR prices and a \$12 million decrease in PLR volumes at PPL Electric and a \$9 million decrease in the market price of natural gas and a \$5 million decrease in natural gas volumes at LKE.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2017 vs. 2016	2016 vs. 2015
Domestic:		
LKE plant operations and maintenance (a)	\$ (2)	\$ (19)
LKE pension expense	1	(12)
PPL Electric payroll-related costs	(12)	(26)
PPL Electric Act 129	9	(15)
PPL Electric contractor related expenses	(4)	7
PPL Electric vegetation management	(17)	4
PPL Electric universal service programs	(3)	3
Storm costs	4	6
Bad debts	(17)	(5)
Stock compensation expense	5	(6)
Third-party costs related to the spinoff of PPL Energy Supply (Note 8)	—	(13)
Separation benefits related to the spinoff of PPL Energy Supply (Note 8)	—	(8)
Corporate costs previously included in discontinued operations	—	8
Other	(1)	18
U.K.:		
Pension expense (b)	(67)	(86)
Foreign currency exchange rates	(15)	(33)
Third-party engineering	6	(8)
Other	3	(8)
Total	<u>\$ (110)</u>	<u>\$ (193)</u>

(a) Includes a \$29 million reduction of costs in 2016 compared with 2015 due to the retirement of Cane Run and Green River coal units partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations.

(b) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs.

Depreciation

The increase (decrease) in depreciation was due to:

	2017 vs. 2016	2016 vs. 2015
Additions to PP&E, net	\$ 93	\$ 76
Foreign currency exchange rates	(16)	(27)
Depreciation rates (a)	15	—
Other	(10)	(6)
Total	<u>\$ 82</u>	<u>\$ 43</u>

(a) Higher depreciation rates were effective July 1, 2017 at LG&E and KU.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income was due to:

	2017 vs. 2016	2016 vs. 2015
State gross receipts tax (a)	\$ 3	\$ 11
Domestic property tax expense	4	4
Domestic capital stock tax	(6)	—
Foreign currency exchange rates	(8)	(15)
Other	(2)	2
Total	<u>\$ (9)</u>	<u>\$ 2</u>

(a) 2016 increased compared with 2015 due to the settlement of a 2011 gross receipts tax audit that resulted in the reversal of \$17 million of previously recognized reserves in 2015.

Other Income (Expense) - net

Other income (expense) - net decreased \$645 million in 2017 compared with 2016 and increased \$282 million in 2016 compared with 2015 primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense was due to:

	2017 vs. 2016	2016 vs. 2015
Long-term debt interest expense (a)	\$ 34	\$ 63
Short-term debt interest	7	2
Hedging activities and ineffectiveness	1	(4)
Foreign currency exchange rates	(26)	(43)
Other	(3)	(1)
Total	<u>\$ 13</u>	<u>\$ 17</u>

(a) Interest expense increased in 2017 compared with 2016, primarily due to accretion on Index linked bonds at WPD and a debt issuance at PPL Electric in May 2017.

Interest expense increased in 2016 compared with 2015 primarily due to debt issuances at WPD in November 2015, LG&E and KU in September 2015 and PPL Capital Funding in May 2016 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

Income Taxes

The increase (decrease) in income taxes was due to:

	2017 vs. 2016	2016 vs. 2015
Change in pre-tax income at current period tax rates	\$ (223)	\$ 184
Valuation allowance adjustments (a)	20	(8)
Federal and state tax reserve adjustments (b)	—	22
Foreign income tax return adjustments	(10)	2
U.S. income tax on foreign earnings net of foreign tax credit (c)	89	(50)
Impact of U.K. Finance Acts (d)	33	42
Deferred tax impact of U.S. tax reform (e)	220	—
Stock-based compensation (f)	7	(10)
Other	—	1
Total	<u>\$ 136</u>	<u>\$ 183</u>

(a) During 2017, PPL recorded an increase in valuation allowances of \$23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2017 and 2016, PPL recorded deferred income tax expense of \$16 million and \$13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded \$24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of \$12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and \$12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

(b) During 2015, PPL recorded a \$9 million income tax benefit related to a planned amendment of a prior period tax return and a \$12 million income tax benefit related to the settlement of an IRS audit for the tax years 1998-2011.

(c) During 2017, PPL recorded a federal income tax benefit of \$35 million primarily attributable to UK pension contributions.

During 2017, PPL recorded deferred income tax expense of \$83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million, including \$205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only \$83 million of the \$205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of \$122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits

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associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of \$205 million offset by a valuation allowance of \$122 million.

PPL recorded lower income taxes in 2016 compared with 2015 primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

- (d) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a \$42 million deferred income tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a \$90 million deferred income tax benefit during 2015, related to both rate decreases.

- (e) During 2017, PPL recorded deferred income tax expense for the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(f) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information on income taxes.

Loss from Discontinued Operations (net of income taxes)

Loss from Discontinued Operations (net of income taxes) for 2015 includes the results of operations of PPL Energy Supply, which was spun off from PPL on June 1, 2015 and substantially represents PPL's former Supply segment. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Segment Earnings

PPL's net income by reportable segments were as follows:

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
U.K. Regulated	\$ 652	\$ 1,246	\$ 1,121	\$ (594)	\$ 125
Kentucky Regulated	286	398	326	(112)	72
Pennsylvania Regulated	359	338	252	21	86
Corporate and Other (a)	(169)	(80)	(96)	(89)	16
Discontinued Operations (b)	—	—	(921)	—	921
Net Income	\$ 1,128	\$ 1,902	\$ 682	\$ (774)	\$ 1,220

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. 2017 includes \$97 million of additional income tax expense related to the enactment of the TCJA. See Note 5 to the Financial Statements for additional information. 2015 includes certain costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.
(b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's former Supply segment, the earnings of the Supply segment prior to the spinoff are included in Discontinued Operations. 2015 includes an \$879 million charge reflecting the difference between PPL's recorded value for the Supply segment and its estimated fair value as of the spinoff date, determined in accordance with the applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Spinoff of the Supply segment.
- Gains and losses on sales of assets not in the ordinary course of business.

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- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 17 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment were as follows:

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
U.K. Regulated	\$ 885	\$ 1,015	\$ 968	\$ (130)	\$ 47
Kentucky Regulated	395	398	343	(3)	55
Pennsylvania Regulated	349	338	252	11	86
Corporate and Other	(76)	(77)	(74)	1	(3)
Earnings from Ongoing Operations	\$ 1,553	\$ 1,674	\$ 1,489	\$ (121)	\$ 185

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs. The U.K. Regulated segment represents 58% of PPL's Net Income for 2017 and 41% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating revenues	\$ 2,091	\$ 2,207	\$ 2,410	\$ (116)	\$ (203)
Other operation and maintenance	272	344	477	(72)	(133)
Depreciation	230	233	242	(3)	(9)
Taxes, other than income	127	135	148	(8)	(13)
Total operating expenses	629	712	867	(83)	(155)
Other Income (Expense) - net	(261)	386	123	(647)	263
Interest Expense	397	402	417	(5)	(15)
Income Taxes	152	233	128	(81)	105
Net Income	652	1,246	1,121	(594)	125
Less: Special Items	(233)	231	153	(464)	78
Earnings from Ongoing Operations	\$ 885	\$ 1,015	\$ 968	\$ (130)	\$ 47

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations.

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	Income Statement Line Item	2017	2016	2015
Foreign currency economic hedges, net of tax of \$59, \$4, (\$30) (a)	Other Income (Expense) - net	\$ (111)	\$ (8)	\$ 55
U.S. tax reform (b)	Income Taxes	(122)	—	—
Settlement of foreign currency contracts, net of tax of \$0, (\$108), \$0 (c)	Other Income (Expense) - net	—	202	—
Change in U.K. tax rate (d)	Income Taxes	—	37	78
WPD Midlands acquisition-related adjustment, net of tax of \$0, \$0, (\$1)	Other operation and maintenance	—	—	2
Settlement of certain income tax positions (e)	Income Taxes	—	—	18
Total		\$ (233)	\$ 231	\$ 153

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.
- (b) During 2017, PPL recorded deferred income tax expense for the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.
- (c) In 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income. See Note 17 to the Financial Statements for additional information.
- (d) The U.K. Finance Acts of 2016 and 2015 reduced the U.K.'s statutory income tax rates. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016 and 2015. See Note 5 to the Financial Statements for additional information.
- (e) Relates to the April 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
U.K.		
Gross margins	\$ 30	\$ 62
Other operation and maintenance	64	94
Depreciation	(14)	(18)
Interest expense	(21)	(28)
Other	(6)	(3)
Income taxes	11	(18)
U.S.		
Interest expense and other	1	(2)
Income taxes	(10)	41
Foreign currency exchange, after-tax	(185)	(81)
Earnings from Ongoing Operations	(130)	47
Special items, after-tax	(464)	78
Net Income	\$ (594)	\$ 125

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.
- Lower other operation and maintenance expense in 2017 compared with 2016 primarily due to \$67 million from higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.
- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to \$86 million from higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.
- Higher depreciation expense in 2017 compared with 2016 and 2016 compared with 2015, primarily due to additions to PP&E, net of retirements.
- Higher interest expense in 2017 compared with 2016 primarily due to higher interest expense on indexed linked bonds.

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- Higher interest expense in 2016 compared with 2015 primarily due to \$16 million higher long-term debt interest expense due to a debt issuance in November 2015 and \$12 million higher interest expense on indexed linked bonds.
- Lower income taxes in 2017 compared with 2016 primarily due to decreases of \$10 million related to accelerated tax deductions and \$7 million from lower U.K. tax rates, partially offset by an increase of \$11 million from higher pre-tax income.
- Higher income taxes in 2016 compared with 2015 primarily due to an increase of \$21 million from higher pre-tax income, partially offset by a decrease of \$7 million from lower U.K. tax rates.

U.S.

- Higher income taxes in 2017 compared with 2016 primarily due to a \$37 million benefit related to foreign tax credit carryforwards in 2016, partially offset by a \$29 million tax benefit on accelerated pension contributions made in the first quarter of 2017.
- Lower income taxes in 2016 compared with 2015 primarily due to a benefit related to foreign tax credit carryforwards in 2016.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 25% of PPL's Net Income for 2017 and 35% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating revenues	\$ 3,156	\$ 3,141	\$ 3,115	\$ 15	\$ 26
Fuel	759	791	863	(32)	(72)
Energy purchases	178	171	184	7	(13)
Other operation and maintenance	806	804	837	2	(33)
Depreciation	439	404	382	35	22
Taxes, other than income	65	62	57	3	5
Total operating expenses	2,247	2,232	2,323	15	(91)
Other Income (Expense) - net	(3)	(9)	(13)	6	4
Interest Expense	261	260	232	1	28
Income Taxes	359	242	221	117	21
Net Income	286	398	326	(112)	72
Less: Special Items	(109)	—	(17)	(109)	17
Earnings from Ongoing Operations	\$ 395	\$ 398	\$ 343	\$ (3)	\$ 55

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations.

	Income Statement Line Item	2017	2016	2015
U.S. tax reform (a)	Income Taxes	\$ (112)	\$ —	\$ —
Adjustment to investment, net of tax of \$0, \$0, \$0 (b)	Other Income (Expense) - net	(1)	—	—
Settlement of indemnification agreement, net of tax of (\$2), \$0, \$0 (c)	Other Income (Expense) - net	4	—	—
Certain income tax valuation allowances (d)	Income Taxes	—	—	(12)
LKE acquisition - related adjustment, net of tax of \$0, \$0, \$0 (e)	Other Income (Expense) - net	—	—	(5)
Total		\$ (109)	\$ —	\$ (17)

- (a) During 2017, LKE recorded deferred income tax expense related to the enactment of the TCJA associated with LKE's non-regulated entities. See Note 5 to the Financial Statements for additional information.

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- (b) KU recorded a write-off of an equity method investment.
- (c) Recorded at LKE and represents the settlement of a WKE indemnification. See Note 13 to the financial statements for additional information.
- (d) Recorded at LKE and represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
- (e) Recorded at PPL and allocated to the Kentucky Regulated segment. The amount represents a settlement between E.ON AG (a German corporation and the indirect parent of E.ON US Investments Corp., the former parent of LKE) and PPL for a tax matter.

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line item.

	2017 vs. 2016	2016 vs. 2015
Kentucky Gross Margins	\$ 29	\$ 83
Other operation and maintenance	—	42
Depreciation	(27)	(4)
Taxes, other than income	(2)	(4)
Other Income (Expense) - net	1	(1)
Interest Expense	(1)	(28)
Income Taxes	(3)	(33)
Earnings from Ongoing Operations	(3)	55
Special Items, after-tax	(109)	17
Net Income	<u>\$ (112)</u>	<u>\$ 72</u>

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to a \$29 million reduction of costs as a result of coal units retired in 2015 at the Cane Run and Green River plants, partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations and \$12 million of lower pension expense mainly due to higher discount rates and deferred amortization of actuarial losses.
- Higher depreciation expense in 2017 compared with 2016 primarily due to additions to PP&E, net of retirements, and higher depreciation rates effective July 1, 2017.
- Higher income taxes in 2016 compared with 2015 primarily due to higher pre-tax income at current period tax rates.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 32% of PPL's Net Income for 2017 and 24% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating revenues	\$ 2,195	\$ 2,156	\$ 2,124	\$ 39	\$ 32
Energy purchases					
External	507	535	657	(28)	(122)
Intersegment	—	—	14	—	(14)
Other operation and maintenance	571	601	607	(30)	(6)
Depreciation	309	253	214	56	39
Taxes, other than income	107	105	94	2	11
Total operating expenses	1,494	1,494	1,586	—	(92)
Other Income (Expense) - net	16	17	8	(1)	9
Interest Expense	142	129	130	13	(1)
Income Taxes	216	212	164	4	48
Net Income	359	338	252	21	86
Less: Special Items	10	—	—	10	—
Earnings from Ongoing Operations	<u>\$ 349</u>	<u>\$ 338</u>	<u>\$ 252</u>	<u>\$ 11</u>	<u>\$ 86</u>

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The following after-tax gain, which management considers a special item, impacted the Pennsylvania Regulated segment's results and is excluded from Earnings from Ongoing Operations.

	Income Statement Line Item	2017	2016	2015
U.S. tax reform (a)	Income Taxes	\$ 10	\$ —	\$ —
Total		\$ 10	\$ —	\$ —

(a) During 2017, PPL recorded a deferred income tax benefit for the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Margins and the item that management considers special on separate lines and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
Pennsylvania Gross Margins	\$ 31	\$ 177
Other operation and maintenance	42	—
Depreciation	(35)	(39)
Taxes, other than income	1	(14)
Other Income (Expense) - net	(1)	9
Interest Expense	(13)	1
Income Taxes	(14)	(48)
Earnings from Ongoing Operations	11	86
Special Item, after-tax	10	—
Net Income	\$ 21	\$ 86

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.
- Lower other operation and maintenance expense for 2017 compared with 2016 primarily due to \$17 million of lower bad debt expense, \$17 million of lower vegetation management expense and \$12 million of lower payroll related expenses, partially offset by \$19 million of higher corporate service costs allocated to PPL Electric.
- Other operation and maintenance expense for 2016 was comparable with 2015 primarily due to \$26 million of lower payroll related expenses, partially offset by \$8 million of higher corporate service costs allocated to PPL Electric, \$8 million of higher costs for additional work done by outside vendors and other costs, which were not individually significant in comparison to the prior year.
- Higher depreciation expense for both periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to replace aging infrastructure and improve reliability, net of retirements.
- Higher taxes, other than income for 2016 compared with 2015 primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of \$17 million of previously recognized reserves in 2015.
- Higher interest expense for 2017 compared with 2016 primarily due to the issuance of \$475 million of 3.950% First Mortgage Bonds in May 2017.
- Higher income taxes for both periods primarily due to higher pre-tax income at current period tax rates.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the years ended December 31.

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	2017				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 652	\$ 286	\$ 359	\$ (169)	\$ 1,128
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$59	(111)	—	—	—	(111)
Spinoff of the Supply segment, net of tax of (\$1)	—	—	—	4	4
Other:					
U.S. tax reform (a)	(122)	(112)	10	(97)	(321)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Settlement of indemnification agreement, net of tax of (\$2)	—	4	—	—	4
Total Special Items	(233)	(109)	10	(93)	(425)
Earnings from Ongoing Operations	\$ 885	\$ 395	\$ 349	\$ (76)	\$ 1,553

(a) During 2017, PPL recorded deferred income tax (expense) benefit related to the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.

	2016				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 1,246	\$ 398	\$ 338	\$ (80)	\$ 1,902
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$4	(8)	—	—	—	(8)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(3)	(3)
Other:					
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	231	—	—	(3)	228
Earnings from Ongoing Operations	\$ 1,015	\$ 398	\$ 338	\$ (77)	\$ 1,674

	2015					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	\$ 1,121	\$ 326	\$ 252	\$ (96)	\$ (921)	\$ 682
Less: Special Items (expense) benefit:						
Foreign currency economic hedges, net of tax of (\$30)	55	—	—	—	—	55
Spinoff of the Supply segment:						
Discontinued operations, net of tax of \$30	—	—	—	—	(921)	(921)
Transition and transaction costs, net of tax of \$6	—	—	—	(12)	—	(12)
Employee transitional services, net of tax of \$2	—	—	—	(5)	—	(5)
Separation benefits, net of tax of \$3	—	—	—	(5)	—	(5)
Other:						
Change in U.K. tax rate	78	—	—	—	—	78
Settlement of certain income tax positions	18	—	—	—	—	18
WPD Midlands acquisition-related adjustment, net of tax of (\$1)	2	—	—	—	—	2
Certain income tax valuation allowances	—	(12)	—	—	—	(12)
LKE acquisition-related adjustment, net of tax of \$0	—	(5)	—	—	—	(5)
Total Special Items	153	(17)	—	(22)	(921)	(807)
Earnings from Ongoing Operations	\$ 968	\$ 343	\$ 252	\$ (74)	\$ —	\$ 1,489

Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed

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through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "Energy purchases from affiliate" in the 2015 reconciliation table. As a result of the June 2015 spinoff of PPL Energy Supply and the formation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are reflected in "Energy Purchases" in the reconciliation tables. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

The following table shows Margins by PPL's reportable segments and by component, as applicable, for the year ended December 31 as well as the changes between periods. The factors that gave rise to the changes are described following the table.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
U.K. Regulated					
U.K. Gross Margins	\$ 1,952	\$ 2,067	\$ 2,243	\$ (115)	\$ (176)
Impact of changes in foreign currency exchange rates				(145)	(238)
U.K. Gross Margins excluding impact of foreign currency exchange rates				\$ 30	\$ 62
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	\$ 910	\$ 887	\$ 867	\$ 23	\$ 20
KU	1,128	1,122	1,059	6	63
Total Kentucky Gross Margins	\$ 2,038	\$ 2,009	\$ 1,926	\$ 29	\$ 83
Pennsylvania Regulated					
Pennsylvania Gross Margins					
Distribution	\$ 958	\$ 960	\$ 842	\$ (2)	\$ 118
Transmission	487	454	395	33	59
Total Pennsylvania Gross Margins	\$ 1,445	\$ 1,414	\$ 1,237	\$ 31	\$ 177

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U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2017 compared with 2016 primarily due to \$81 million from the April 1, 2016 price increase, partially offset by \$30 million from lower volumes and \$21 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2016 compared with 2015 primarily due to \$166 million from the April 1, 2016 price increase, which included \$39 million of the recovery of prior customer rebates, and \$21 million of other revenue adjustments in the first quarter of 2016, partially offset by \$89 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1 and \$36 million from lower volumes.

Kentucky Gross Margins

Kentucky Gross Margins increased in 2017 compared with 2016 primarily due to higher base rates of \$58 million (\$32 million at LG&E and \$26 million at KU) and gas cost recoveries added to base rates of \$5 million at LG&E, partially offset by \$41 million of lower sales volumes due to milder weather in 2017 (\$15 million at LG&E and \$26 million at KU).

The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2017. The gas cost recoveries added to base rates were the result of the transfer of certain GLT expenses into base rates as a result of the 2016 Kentucky rate case. This transfer results in depreciation and other operation and maintenance expenses associated with the GLT program being excluded from margins in the second half of 2017, while the recovery of such costs remain in Kentucky Gross Margins through base rates.

Kentucky Gross Margins increased in 2016 compared with 2015 primarily due to higher base rates of \$68 million (\$4 million at LG&E and \$64 million at KU) and returns on additional environmental capital investments of \$13 million at LG&E. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015.

Pennsylvania Gross Margins

Distribution

Distribution margins decreased in 2017 compared with 2016 primarily due to \$10 million of lower electricity sales volumes due to milder weather in 2017, partially offset by \$7 million of returns on additional Smart Meter capital investments.

Distribution margins increased in 2016 compared with 2015 primarily due to \$121 million of higher base rates, effective January 1, 2016 as a result of the 2015 rate case.

Transmission

Transmission margins increased in 2017 compared with 2016 primarily due to an increase of \$51 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Transmission margins increased in 2016 compared with 2015 primarily due to returns on additional capital investments focused on replacing aging infrastructure and improving reliability.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31.

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2017					
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,050 (c)	\$ 3,156	\$ 2,195	\$ 46	\$ 7,447
Operating Expenses					
Fuel	—	759	—	—	759
Energy purchases	—	178	507	—	685
Other operation and maintenance	98	111	120	1,306	1,635
Depreciation	—	64	21	923	1,008
Taxes, other than income	—	6	102	184	292
Total Operating Expenses	98	1,118	750	2,413	4,379
Total	\$ 1,952	\$ 2,038	\$ 1,445	\$ (2,367)	\$ 3,068
2016					
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,165 (c)	\$ 3,141	\$ 2,156	\$ 55	\$ 7,517
Operating Expenses					
Fuel	—	791	—	—	791
Energy purchases	—	171	535	—	706
Other operation and maintenance	98	109	108	1,430	1,745
Depreciation	—	56	—	870	926
Taxes, other than income	—	5	99	197	301
Total Operating Expenses	98	1,132	742	2,497	4,469
Total	\$ 2,067	\$ 2,009	\$ 1,414	\$ (2,442)	\$ 3,048
2015					
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,364 (c)	\$ 3,115	\$ 2,124	\$ 66	\$ 7,669
Operating Expenses					
Fuel	—	863	—	—	863
Energy purchases	—	184	657	14	855
Energy purchases from affiliate	—	—	14	(14)	—
Other operation and maintenance	121	100	114	1,603	1,938
Depreciation	—	38	—	845	883
Taxes, other than income	—	4	102	193	299
Total Operating Expenses	121	1,189	887	2,641	4,838
Total	\$ 2,243	\$ 1,926	\$ 1,237	\$ (2,575)	\$ 2,831

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) 2017, 2016 and 2015 exclude \$41 million, \$42 million and \$46 million of ancillary activity revenues.

2018 Outlook

(PPL)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is primarily attributable to increases in the U.K. Regulated and Pennsylvania Regulated segments. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

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(PPL's U.K. Regulated Segment)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be lower, driven primarily by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses, partially offset by an assumed return to normal weather and higher base electricity and gas rates effective July 1, 2017.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, driven primarily by higher transmission earnings and lower operation and maintenance expense, partially offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be flat in 2018 compared to 2017, due to a lower tax shield on holding company interest expense offset by lower financing costs.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, and Notes 1, 6 and 13 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating Revenues	\$ 2,195	\$ 2,156	\$ 2,124	\$ 39	\$ 32
Operating Expenses					
Operation					
Energy purchases	507	535	657	(28)	(122)
Energy purchases from affiliate	—	—	14	—	(14)
Other operation and maintenance	571	599	607	(28)	(8)
Depreciation	309	253	214	56	39
Taxes, other than income	107	105	94	2	11
Total Operating Expenses	1,494	1,492	1,586	2	(94)
Other Income (Expense) - net	11	17	8	(6)	9
Interest Income from Affiliate	5	—	—	5	—
Interest Expense	142	129	130	13	(1)
Income Taxes	213	212	164	1	48
Net Income	\$ 362	\$ 340	\$ 252	\$ 22	\$ 88

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Operating Revenues

The increase (decrease) in operating revenues was due to:

	2017 vs. 2016	2016 vs. 2015
Distribution Price (a)	\$ 53	\$ 126
Distribution volume	(21)	(9)
PLR (b)	(16)	(135)
Transmission Formula Rate	34	59
Other	(11)	(9)
Total	\$ 39	\$ 32

(a) Distribution rider prices resulted in an increase of \$47 million in 2017 compared with 2016. Distribution rate case effective January 1, 2016, resulted in an increase of \$160 million in 2016 compared with 2015.

(b) Decrease in 2016 compared with 2015 was primarily due to lower energy purchase prices as described below.

Energy Purchases

Energy purchases decreased \$28 million in 2017 compared with 2016 and \$122 million in 2016 compared with 2015 primarily due to lower PLR prices.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased \$14 million in 2016 compared with 2015 as a result of the June 1, 2015 PPL Energy Supply spinoff.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2017 vs. 2016	2016 vs. 2015
Act 129	\$ 9	\$ (15)
Universal service programs	(3)	3
Contractor-related expenses	(4)	7
Vegetation management	(17)	4
Payroll-related costs	(12)	(26)
Corporate service costs	19	8
Storm costs	5	9
Bad debts	(17)	(4)
Environmental costs	—	(6)
Other	(8)	12
Total	\$ (28)	\$ (8)

Depreciation

Depreciation increased by \$56 million in 2017 compared with 2016 primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Depreciation increased by \$39 million in 2016 compared with 2015 primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Taxes, Other Than Income

Taxes, other than income increased by \$11 million in 2016 compared with 2015 primarily due to the settlement of a 2011 gross receipts tax audit that resulted in the reversal of \$17 million of previously recognized reserves in 2015.

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Interest Expense

Interest expense increased \$13 million in 2017 compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes was due to:

	2017 vs. 2016	2016 vs. 2015
Change in pre-tax income at current period tax rates	\$ 10	\$ 58
Depreciation not normalized	—	(5)
Deferred tax impact of U.S. tax reform (a)	(13)	—
Stock-based compensation (b)	4	(6)
Other	—	1
Total	<u>\$ 1</u>	<u>\$ 48</u>

- (a) During 2017, PPL Electric recorded a deferred income tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) During 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information on income taxes.

Earnings

	2017	2016	2015
Net Income	\$ 362	\$ 340	\$ 252
Special item, gain (loss), after-tax	10	—	—

Excluding special items, earnings increased in 2017 compared with 2016, primarily due to lower operation and maintenance expense and higher transmission margins from additional capital investments, partially offset by a lower PPL zonal peak load billing factor, lower distribution sales volumes due to unfavorable weather, higher depreciation expense, higher interest expense and higher income taxes.

Earnings increased in 2016 compared with 2015, primarily due to higher base electricity rates for distribution effective January 1, 2016, and higher transmission margins from additional capital investments, partially offset by higher depreciation expense and the release of a gross receipts tax reserve in 2015.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins and an item that management considers special on separate lines within the table and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
Pennsylvania Gross Margins	\$ 31	\$ 177
Other operation and maintenance	40	2
Depreciation	(35)	(39)
Taxes, other than income	1	(14)
Other Income (Expense) - net	(1)	9
Interest Expense	(13)	1
Income Taxes	(11)	(48)
Special Item, after-tax	10	—
Net Income	<u>\$ 22</u>	<u>\$ 88</u>

Margins

"Pennsylvania Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

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The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2017			2016		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,195	\$ —	\$ 2,195	\$ 2,156	\$ —	\$ 2,156
Operating Expenses						
Energy purchases	507	—	507	535	—	535
Other operation and maintenance	120	451	571	108	491	599
Depreciation	21	288	309	—	253	253
Taxes, other than income	102	5	107	99	6	105
Total Operating Expenses	750	744	1,494	742	750	1,492
Total	\$ 1,445	\$ (744)	\$ 701	\$ 1,414	\$ (750)	\$ 664
				2015		
				PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues				\$ 2,124	\$ —	\$ 2,124
Operating Expenses						
Energy purchases				657	—	657
Energy purchases from affiliate				14	—	14
Other operation and maintenance				114	493	607
Depreciation				—	214	214
Taxes, other than income				102	(8)	94
Total Operating Expenses				887	699	1,586
Total				\$ 1,237	\$ (699)	\$ 538

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating Revenues	\$ 3,156	\$ 3,141	\$ 3,115	\$ 15	\$ 26
Operating Expenses					
Operation					
Fuel	759	791	863	(32)	(72)
Energy purchases	178	171	184	7	(13)
Other operation and maintenance	806	804	837	2	(33)
Depreciation	439	404	382	35	22
Taxes, other than income	65	62	57	3	5
Total Operating Expenses	2,247	2,232	2,323	15	(91)
Other Income (Expense) - net	(3)	(9)	(8)	6	(1)
Interest Expense	197	197	178	—	19
Interest Expense with Affiliate	18	17	3	1	14
Income Taxes	375	257	239	118	18
Net Income	\$ 316	\$ 429	\$ 364	\$ (113)	\$ 65

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Operating Revenues

The increase (decrease) in operating revenues was due to:

	2017 vs. 2016	2016 vs. 2015
Base rates	\$ 58	\$ 68
Volumes (a)	(73)	1
Fuel and other energy prices (b)	10	(81)
ECR	10	39
Other	10	(1)
Total	<u>\$ 15</u>	<u>\$ 26</u>

(a) Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(b) Decrease in 2016 compared with 2015 was due to lower recoveries of fuel due to lower commodity costs.

Fuel

Fuel decreased \$32 million in 2017 compared with 2016 primarily due to a decrease in fuel usage driven by milder weather in 2017.

Fuel decreased \$72 million in 2016 compared with 2015 primarily due to a decrease in market prices for coal and natural gas.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2017 vs. 2016	2016 vs. 2015
Plant operations and maintenance (a)	\$ (2)	\$ (19)
Pension expense	1	(12)
Timing and scope of scheduled generation maintenance outages	(1)	(5)
Storm costs	(1)	(3)
Bad debts	—	(1)
Energy efficiency programs	—	5
Other	5	2
Total	<u>\$ 2</u>	<u>\$ (33)</u>

(a) Decrease in 2016 compared with 2015 was due to a \$29 million reduction of costs in 2016 due to the retirement of Cane Run and Green River coal units partially offset by \$5 million of additional costs for Cane Run Unit 7 plant operations.

Depreciation

Depreciation increased \$35 million in 2017 compared with 2016 primarily due to a \$19 million increase related to additions to PP&E, net of retirements, and a \$15 million increase related to higher depreciation rates effective July 1, 2017.

Depreciation increased \$22 million in 2016 compared with 2015 due to additions to PP&E, net of retirements.

Income Taxes

The increase (decrease) in income taxes was due to:

	2017 vs. 2016	2016 vs. 2015
Change in pre-tax income at current period tax rates	\$ 2	\$ 32
Certain income tax valuation allowances	—	(12)
U.S. tax reform (a)	112	—
Other	4	(2)
Total	<u>\$ 118</u>	<u>\$ 18</u>

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(a) During 2017, LKE recorded deferred tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA associated with LKE's non-regulated entities.

See Note 5 to the Financial Statements for additional information on income taxes.

Earnings

	2017	2016	2015
Net Income	\$ 316	\$ 429	\$ 364
Special items, gains (losses), after-tax	(109)	—	(12)

Excluding special items, earnings decreased in 2017 compared with 2016 primarily due to lower sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity and gas rates effective July 1, 2017.

Excluding special items, earnings increased in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015, returns on additional environmental capital investments and lower other operation and maintenance expense partially offset by higher interest expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
Margins	\$ 29	\$ 83
Other operation and maintenance	—	42
Depreciation	(27)	(4)
Taxes, Other than income	(2)	(4)
Other Income (Expense) - net	1	(1)
Interest Expense	(1)	(33)
Income Taxes	(4)	(30)
Special items, gains (losses), after-tax (a)	(109)	12
Net Income	<u>\$ (113)</u>	<u>\$ 65</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special items.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended December 31.

	2017			2016		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 3,156	\$ —	\$ 3,156	\$ 3,141	\$ —	\$ 3,141
Operating Expenses						
Fuel	759	—	759	791	—	791
Energy purchases	178	—	178	171	—	171
Other operation and maintenance	111	695	806	109	695	804
Depreciation	64	375	439	56	348	404
Taxes, other than income	6	59	65	5	57	62
Total Operating Expenses	1,118	1,129	2,247	1,132	1,100	2,232
Total	<u>\$ 2,038</u>	<u>\$ (1,129)</u>	<u>\$ 909</u>	<u>\$ 2,009</u>	<u>\$ (1,100)</u>	<u>\$ 909</u>

	2015		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 3,115	\$ —	\$ 3,115
Operating Expenses			
Fuel	863	—	863
Energy purchases	184	—	184
Other operation and maintenance	100	737	837
Depreciation	38	344	382
Taxes, other than income	4	53	57
Total Operating Expenses	1,189	1,134	2,323
Total	\$ 1,926	\$ (1,134)	\$ 792

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating Revenues					
Retail and wholesale	\$ 1,422	\$ 1,406	\$ 1,407	\$ 16	\$ (1)
Electric revenue from affiliate	31	24	37	7	(13)
Total Operating Revenues	1,453	1,430	1,444	23	(14)
Operating Expenses					
Operation					
Fuel	292	301	329	(9)	(28)
Energy purchases	160	153	166	7	(13)
Energy purchases from affiliates	10	14	20	(4)	(6)
Other operation and maintenance	355	355	377	—	(22)
Depreciation	183	170	162	13	8
Taxes, other than income	33	32	28	1	4
Total Operating Expenses	1,033	1,025	1,082	8	(57)
Other Income (Expense) - net	(5)	(5)	(6)	—	1
Interest Expense	71	71	57	—	14
Income Taxes	131	126	114	5	12
Net Income	\$ 213	\$ 203	\$ 185	\$ 10	\$ 18

Operating Revenues

The increase (decrease) in operating revenues was due to:

	2017 vs. 2016	2016 vs. 2015
Base rates	\$ 32	\$ 4
Volumes (a)	(20)	(8)
Fuel and other energy prices (b)	—	(36)
ECR	5	26
Other	6	—
Total	\$ 23	\$ (14)

(a) Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(b) Decrease in 2016 compared with 2015 was due to lower recoveries of fuel due to lower commodity costs.

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Fuel

Fuel decreased \$28 million in 2016 compared with 2015 primarily due to a \$24 million decrease in market prices for coal and natural gas.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2017 vs. 2016	2016 vs. 2015
Plant operations and maintenance (a)	\$ (1)	\$ (21)
Pension expense	1	(6)
Timing and scope of scheduled generation maintenance outages	—	3
Storm costs	(1)	(2)
Energy efficiency programs	—	2
Other	1	2
Total	\$ —	\$ (22)

(a) Decrease in 2016 compared with 2015 was due to a \$23 million reduction of costs in 2016 due to the retirement of Cane Run coal units.

Interest Expense

Interest expense increased \$14 million in 2016 compared with 2015 primarily due to the issuance of \$300 million of incremental First Mortgage Bonds in September 2015 and higher interest rates on \$250 million of First Mortgage Bonds refinanced by LG&E.

Earnings

	2017	2016	2015
Net Income	\$ 213	\$ 203	\$ 185
Special items, gains (losses), after-tax (a)	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings in 2017 compared with 2016 increased primarily due to higher base electricity and gas rates effective July 1, 2017, partially offset by lower sales volumes driven by milder weather in 2017 and higher depreciation expense.

Earnings in 2016 compared with 2015 increased primarily due to returns on additional environmental capital investments and lower other operation and maintenance expense, partially offset by higher interest expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
Margins	\$ 23	\$ 20
Other operation and maintenance	2	23
Depreciation	(10)	3
Taxes, other than income	—	(3)
Other Income (Expense) - net	—	1
Interest Expense	—	(14)
Income Taxes	(5)	(12)
Net Income	\$ 10	\$ 18

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful

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and the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended December 31.

	2017			2016		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,453	\$ —	\$ 1,453	\$ 1,430	\$ —	\$ 1,430
Operating Expenses						
Fuel	292	—	292	301	—	301
Energy purchases	170	—	170	167	—	167
Other operation and maintenance	45	310	355	43	312	355
Depreciation	32	151	183	29	141	170
Taxes, other than income	4	29	33	3	29	32
Total Operating Expenses	543	490	1,033	543	482	1,025
Total	\$ 910	\$ (490)	\$ 420	\$ 887	\$ (482)	\$ 405

	2015		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,444	\$ —	\$ 1,444
Operating Expenses			
Fuel	329	—	329
Energy purchases	186	—	186
Other operation and maintenance	42	335	377
Depreciation	18	144	162
Taxes, other than income	2	26	28
Total Operating Expenses	577	505	1,082
Total	\$ 867	\$ (505)	\$ 362

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

	2017	2016	2015	Change	
				2017 vs. 2016	2016 vs. 2015
Operating Revenues					
Retail and wholesale	\$ 1,734	\$ 1,735	\$ 1,708	\$ (1)	\$ 27
Electric revenue from affiliate	10	14	20	(4)	(6)
Total Operating Revenues	1,744	1,749	1,728	(5)	21
Operating Expenses					
Operation					
Fuel	467	490	534	(23)	(44)
Energy purchases	18	18	18	—	—
Energy purchases from affiliates	31	24	37	7	(13)
Other operation and maintenance	424	424	435	—	(11)
Depreciation	255	234	220	21	14
Taxes, other than income	32	30	29	2	1
Total Operating Expenses	1,227	1,220	1,273	7	(53)
Other Income (Expense) - net	(3)	(5)	1	2	(6)
Interest Expense	96	96	82	—	14
Income Taxes	159	163	140	(4)	23
Net Income	\$ 259	\$ 265	\$ 234	\$ (6)	\$ 31

Operating Revenue

The increase (decrease) in operating revenue was due to:

	2017 vs. 2016	2016 vs. 2015
Base rates	\$ 26	\$ 64
Volumes (a)	(48)	(8)
Fuel and other energy prices (b)	8	(47)
ECR	5	13
Other	4	(1)
Total	\$ (5)	\$ 21

(a) Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(b) Decrease in 2016 compared with 2015 was due to lower recoveries of fuel due to lower commodity costs.

Fuel

Fuel decreased \$23 million in 2017 compared with 2016 primarily due to a \$31 million decrease in fuel usage driven by milder weather in 2017, partially offset by an \$8 million increase in market prices for natural gas.

Fuel decreased \$44 million in 2016 compared with 2015 primarily due to a \$46 million decrease in market prices for coal and natural gas.

Depreciation

Depreciation increased \$21 million in 2017 compared with 2016 primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017, and a \$9 million increase related to additions to PP&E, net of retirements.

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Income Taxes

Income taxes increased \$23 million in 2016 compared with 2015 primarily due to higher pre-tax income at current period tax rates.

See Note 5 to the Financial Statements for additional information on income taxes.

Earnings

	2017	2016	2015
Net Income	\$ 259	\$ 265	\$ 234
Special items, gains (losses), after tax	(1)	—	—

Excluding special items, earnings in 2017 compared with 2016 decreased primarily due to lower electricity sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity rates effective July 1, 2017.

Excluding special items, earnings in 2016 compared with 2015 increased primarily due to higher base electricity rates effective July 1, 2015 and lower other operation and maintenance expense partially offset by higher interest expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on separate line and not in their respective Statement of Income line items.

	2017 vs. 2016	2016 vs. 2015
Margins	\$ 6	\$ 63
Other operation and maintenance	—	19
Depreciation	(16)	(7)
Taxes, Other than income	(2)	(1)
Other Income (Expense) - net	3	(6)
Interest Expense	—	(14)
Income Taxes	4	(23)
Special items, gains (losses), after-tax (a)	(1)	—
Net Income	<u>\$ (6)</u>	<u>\$ 31</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2017			2016		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,744	\$ —	\$ 1,744	\$ 1,749	\$ —	\$ 1,749
Operating Expenses						
Fuel	467	—	467	490	—	490
Energy purchases	49	—	49	42	—	42
Other operation and maintenance	66	358	424	66	358	424
Depreciation	32	223	255	27	207	234
Taxes, other than income	2	30	32	2	28	30
Total Operating Expenses	616	611	1,227	627	593	1,220
Total	<u>\$ 1,128</u>	<u>\$ (611)</u>	<u>\$ 517</u>	<u>\$ 1,122</u>	<u>\$ (593)</u>	<u>\$ 529</u>

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	2015		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,728	\$ —	\$ 1,728
Operating Expenses			
Fuel	534	—	534
Energy purchases	55	—	55
Other operation and maintenance	58	377	435
Depreciation	20	200	220
Taxes, other than income	2	27	29
Total Operating Expenses	669	604	1,273
Total	\$ 1,059	\$ (604)	\$ 455

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 7 in this Form 10-K is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants' cash flows from operations and access to cost effective bank and capital markets are subject to risks and uncertainties. See "Item 1A. Risk Factors" for a discussion of risks and uncertainties that could affect the Registrants' cash flows.

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2017					
Cash and cash equivalents	\$ 485	\$ 49	\$ 30	\$ 15	\$ 15
Short-term debt	1,080	—	244	199	45
Long-term debt due within one year	348	—	98	98	—
Notes payable with affiliates	—	—	225	—	—
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Long-term debt due within one year	518	224	194	194	—
Notes payable with affiliates	—	—	163	—	—
December 31, 2015					
Cash and cash equivalents	\$ 836	\$ 47	\$ 30	\$ 19	\$ 11
Short-term debt	916	—	265	142	48
Long-term debt due within one year	485	—	25	25	—
Notes payables with affiliates	—	—	54	—	—

(a) At December 31, 2017, \$58 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

(PPL)

The Statements of Cash Flows separately report the cash flows of the discontinued operations. The "Operating Activities," "Investing Activities" and "Financing Activities" sections below include only the cash flows of continuing operations.

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(All Registrants)

Net cash provided by (used in) operating, investing and financing activities for the years ended December 31 and the changes between periods were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2017					
Operating activities	\$ 2,461	\$ 880	\$ 1,099	\$ 512	\$ 634
Investing activities	(3,156)	(1,252)	(888)	(458)	(428)
Financing activities	824	408	(194)	(44)	(198)
2016					
Operating activities	\$ 2,890	\$ 872	\$ 1,027	\$ 482	\$ 606
Investing activities	(2,918)	(1,130)	(790)	(439)	(349)
Financing activities	(439)	224	(254)	(57)	(261)
2015					
Operating activities	\$ 2,272	\$ 602	\$ 1,063	\$ 554	\$ 608
Investing activities	(3,439)	(1,108)	(1,203)	(689)	(512)
Financing activities	482	339	149	144	(96)
2017 vs. 2016 Change					
Operating activities	\$ (429)	\$ 8	\$ 72	\$ 30	\$ 28
Investing activities	(238)	(122)	(98)	(19)	(79)
Financing activities	1,263	184	60	13	63
2016 vs. 2015 Change					
Operating activities	\$ 618	\$ 270	\$ (36)	\$ (72)	\$ (2)
Investing activities	521	(22)	413	250	163
Financing activities	(921)	(115)	(403)	(201)	(165)

Operating Activities

The components of the change in cash provided by (used in) operating activities were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2017 vs. 2016					
Change - Cash Provided (Used):					
Net income	\$ (774)	\$ 22	\$ (113)	\$ 10	\$ (6)
Non-cash components	363	100	31	(8)	42
Working capital	38	(87)	93	(33)	(14)
Defined benefit plan funding	(138)	(24)	50	42	(3)
Other operating activities	82	(3)	11	19	9
Total	<u>\$ (429)</u>	<u>\$ 8</u>	<u>\$ 72</u>	<u>\$ 30</u>	<u>\$ 28</u>
2016 vs. 2015					
Change - Cash Provided (Used):					
Net income	\$ 299	\$ 88	\$ 65	\$ 18	\$ 31
Non-cash components	195	40	66	20	(20)
Working capital	47	101	(206)	(100)	(51)
Defined benefit plan funding	72	33	(15)	(20)	1
Other operating activities	5	8	54	10	37
Total	<u>\$ 618</u>	<u>\$ 270</u>	<u>\$ (36)</u>	<u>\$ (72)</u>	<u>\$ (2)</u>

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(PPL)

PPL had a \$429 million decrease in cash provided by operating activities from continuing operations in 2017 compared with 2016.

- Net income declined \$774 million between periods and included net non-cash benefits of \$363 million. The increase in net non-cash benefits was primarily due to an increase in unrealized losses on hedging activities, an increase in deferred income taxes (primarily due to the impact of the TCJA) and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates at LG&E and KU effective July 1, 2017, partially offset by the impact of foreign currency at WPD), partially offset by an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs (credits) and increase in expected returns).
- The \$38 million increase in cash from changes in working capital was primarily due a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, materials and supplies (primarily due to a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016), partially offset by a decrease in accounts payable (due to timing of payments), a decrease in taxes payable (primarily due to the timing of payments) and an increase in accounts receivable.
- Defined benefit plan funding was \$138 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans.

PPL had a \$618 million increase in cash provided by operating activities from continuing operations in 2016 compared with 2015.

- Net income improved by \$299 million between the periods. This included an additional \$195 million of net non-cash benefits, including a \$132 million increase in deferred income taxes and \$96 million of lower unrealized gains on hedging activity (primarily due to the settlement of hedges in the third quarter of 2016) partially offset by a \$96 million increase in defined benefit plan income (primarily due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate for the U.K. pension plans).
- The \$47 million increase in cash from changes in working capital was primarily due to an increase in taxes payable (due to timing of payments) and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in unbilled revenues (primarily due to favorable weather compared to December 2015), an increase in net regulatory assets/liabilities (due to timing of rate recovery mechanisms) and an increase in accounts receivable (primarily due to increased volumes and favorable weather in 2016).
- Defined benefit plan funding was \$72 million lower in 2016.

(PPL Electric)

PPL Electric had an \$8 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by \$22 million between the periods. This included an additional \$100 million of net non-cash benefits primarily due to a \$56 million increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements) and a \$37 million increase in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$87 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to a 2017 federal income tax benefit refund, not yet received), a decrease in accounts payable (primarily due to timing of payments) and an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016), partially offset by an decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016).
- Pension funding was \$24 million higher in 2017 due to contributions made in 2017 to the PPL Retirement Plan.

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PPL Electric had an \$270 million increase in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$88 million between the periods. This included an additional \$40 million of net non-cash benefits primarily due to a \$39 million increase in depreciation expense (primarily due to the replacement of aging infrastructure and to ensure system reliability).
- The \$101 million increase in cash from changes in working capital was primarily due to an increase in accounts payable (primarily due to timing of payments), an increase in taxes payable (primarily due to timing of payments) and a decrease in prepayments (primarily due to higher tax payments in 2015), partially offset by an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), an increase in unbilled revenues (primarily due to higher volumes and favorable weather compared to December 2015) and an increase in accounts receivable.
- Pension funding was \$33 million lower in 2016.

(LKE)

LKE had a \$72 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income declined by \$113 million and included an increase of \$31 million of net non-cash charges primarily due to a \$35 million increase in depreciation expense and a \$3 million increase in deferred income taxes due to the impact of the TCJA, largely offset by book versus tax plant timing differences and reduced benefit from net operating losses.
- The increase in cash from changes in working capital was driven primarily by an increase in other current liabilities due to customer advances and the timing of payments, a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016, an increase in taxes payable due to the timing of payments, partially offset by a decrease in accounts payable due to the timing of payments.
- Defined benefit plan funding was \$50 million lower in 2017.

LKE had a \$36 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$65 million and included an increase of \$66 million of net non-cash charges primarily due to a \$55 million increase in deferred income taxes and a \$22 million increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from PPL for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and a decrease in taxes payable due to the timing of payments, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$15 million higher in 2016.
- The increase in cash from LKE's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

(LG&E)

LG&E had a \$30 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by \$10 million and included a decrease of \$8 million of net non-cash charges primarily due to a \$21 million decrease in deferred income taxes largely due to book versus tax plant timing differences, partially offset by a \$13 million increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by decreases in accounts payable and taxes payable due to the timing of payments, partially offset by a decrease in accounts receivable from affiliates due to lower intercompany settlements associated with energy sales and inventory and an increase in other current liabilities due to customer advances and the timing of payments.
- Defined benefit plan funding was \$42 million lower in 2017.
- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps.

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LG&E had a \$72 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$18 million and included an increase of \$20 million of net non-cash charges primarily due to a \$21 million increase in deferred income taxes.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and an increase in accounts receivable from affiliates due to higher intercompany settlements associated with energy sales and inventory, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$20 million higher in 2016.
- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

(KU)

KU had a \$28 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income declined by \$6 million and included an increase of \$42 million of net non-cash charges primarily due to an increase of \$26 million in deferred income taxes largely due to the utilization of net operating losses and an increase of \$21 million in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by a decrease in taxes payable due to the timing of payments and a decrease in accounts payable to affiliates due to lower intercompany settlements associated with energy purchases and inventory, partially offset by a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016 and an increase in accounts payable due to the timing of payments.

KU had a \$2 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by \$31 million and included a decrease of \$20 million of net non-cash charges primarily due to a \$34 million decrease in deferred income taxes, partially offset by a \$14 million increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, partially offset by an increase in accounts payable to affiliates due to higher intercompany settlements associated with energy purchases and inventory, and an increase in taxes payable due to the timing of payments.
- The increase in cash from KU's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

Investing Activities

(All Registrants)

The components of the change in cash provided by (used in) investing activities were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ (213)	\$ (119)	\$ (101)	\$ (19)	\$ (82)
Investment activity, net	(2)	—	—	—	—
Other investing activities	(23)	(3)	3	—	3
Total	\$ (238)	\$ (122)	\$ (98)	\$ (19)	\$ (79)

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	PPL	PPL Electric	LKE	LG&E	KU
2016 vs. 2015					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ 613	\$ (28)	\$ 419	\$ 250	\$ 169
Investment activity, net	(134)	—	—	—	—
Other investing activities	42	6	(6)	—	(6)
Total	\$ 521	\$ (22)	\$ 413	\$ 250	\$ 163

For PPL, in 2017 compared with 2016, higher project expenditures at PPL Electric, LKE, LG&E and KU were partially offset by lower project expenditures at WPD. The increase in project expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek plant, CCR projects at the Trimble County plant and increased spending on various transmission projects at KU, partially offset by lower spending driven by completion of environmental air projects. The decrease in expenditures at WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability.

For PPL, in 2016 compared with 2015, lower project expenditures at WPD, LKE, LG&E and KU were partially offset by higher project expenditures at PPL Electric. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures for LG&E was primarily driven by the completion of the environmental air projects at LG&E's Mill Creek Plant. The decrease in expenditures for KU was primarily driven by the completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant. The increase in expenditures for PPL Electric was primarily due to the Northern Lehigh and Greater Scranton transmission reliability projects and other various transmission and distribution projects, partially offset by the completion of the Northeast Pocono reliability project and Susquehanna-Roseland transmission project.

The change in "Investment activity, net" for 2016 compared with 2015 resulted from PPL receiving \$136 million during 2015 for the sale of short-term investments.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2018 through 2022.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ 935	\$ 470	\$ 115	\$ 115	\$ —
Stock issuances/redemptions, net	309	—	—	—	—
Dividends	(42)	(48)	—	(64)	22
Capital contributions/distributions, net	—	355	(147)	(41)	(20)
Changes in net short-term debt (a)	86	(590)	92	3	61
Other financing activities	(25)	(3)	—	—	—
Total	\$ 1,263	\$ 184	\$ 60	\$ 13	\$ 63

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	PPL	PPL Electric	LKE	LG&E	KU
2016 vs. 2015					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ (824)	\$ (248)	\$ (175)	\$ (325)	\$ (250)
Debt issuance/retirement, affiliate		—	(400)	—	—
Stock issuances/redemptions, net	(59)	—	—	—	—
Dividends	(26)	(107)	—	(9)	(95)
Capital contributions/distributions, net		(55)	(161)	(19)	20
Changes in net short-term debt (a)	(65)	295	326	149	156
Other financing activities	53	—	7	3	4
Total	<u>\$ (921)</u>	<u>\$ (115)</u>	<u>\$ (403)</u>	<u>\$ (201)</u>	<u>\$ (165)</u>

(a) Includes net increase (decrease) in notes payable with affiliates.

(PPL)

For PPL, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures and a decrease in cash from operations of \$429 million.

For PPL, in 2016 compared with 2015, cash provided by financing activities decreased primarily due to improvements in cash from operations of \$618 million.

(PPL Electric)

For PPL Electric, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general expenditures.

For PPL Electric, in 2016 compared with 2015, cash provided by financing activities decreased primarily due to improvements in cash from operations of \$270 million.

(LKE, LG&E and KU)

For LKE, LG&E and KU, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures.

For LKE, LG&E and KU, in 2016 compared with 2015, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general corporate expenditures.

(All Registrants)

See "Long-term Debt and Equity Securities" below for additional information on current year activity. See "Forecasted Sources of Cash" for a discussion of the Registrants' plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to the Registrants. Also see "Forecasted Uses of Cash" for a discussion of PPL's plans to pay dividends on common securities in the future, as well as the Registrants' maturities of long-term debt.

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2017 included:

	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
Cash Flow Impact:			
PPL	\$ 1,515	\$ 168	\$ 453
PPL Electric	470	—	
LKE	160	70	
LG&E	160	70	
KU	—	—	

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(a) Issuances are net of pricing discounts, where applicable, and exclude the impact of debt issuance costs.

See Note 7 to the Financial Statements for additional information about long-term debt.

ATM Program (PPL)

During 2017, PPL issued 10,373 thousand shares of common stock under the program, receiving net proceeds of \$377 million. The compensation paid to the selling agents by PPL may be up to 1% of the gross offering proceeds of the shares sold with respect to each equity distribution agreement. See Note 7 to the Financial Statements for additional information about the ATM Program.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2018.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At December 31, 2017, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 248	\$ 1,152
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facilities	700	100	199	401
KU Credit Facilities	598	—	243	355
Total LKE Consolidated	1,373	100	442	831
Total U.S. Credit Facilities (a) (b)	\$ 3,423	\$ 100	\$ 691	\$ 2,632
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 448	£ —	£ 605

(a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.

The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric 7%, LKE - 18%, LG&E - 33% and KU - 37%.

(b) Each company pays customary fees under its respective syndicated credit facility, as does LG&E under its term loan agreement and KU under its letter of credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(c) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

The amounts borrowed at December 31, 2017, include a USD-denominated borrowing of \$200 million and GBP-denominated borrowings of £300 million, which equated to \$406 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £150 million as of the date borrowed. At December 31, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$819 million.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 20% of the total committed capacity.

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In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2017, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 275	\$ 225	\$ —	\$ 50
LG&E Money Pool (a)	500	—	199	301
KU Money Pool (a)	500	—	45	455

(a) LG&E and KU participate in an intercompany agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has authorized a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 14 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	December 31, 2017		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 230	\$ 770
PPL Electric	650	—	650
LG&E	350	199	151
KU	350	45	305
Total LKE	700	244	456
Total PPL	\$ 2,350	\$ 474	\$ 1,876

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to incur, subject to market conditions, up to \$3.2 billion of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

PPL is authorized to issue, subject to market conditions, up to \$3.5 billion of equity over three years.

(PPL Electric)

PPL Electric is authorized to incur, subject to market conditions, up to \$650 million of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E is authorized to incur, subject to market conditions and regulatory approvals, up to \$200 million of long-term indebtedness in 2018, of which \$100 million was issued in January 2018. The proceeds would be used to fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, \$98 million of its Pollution Control Bonds with put dates in 2018.

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KU is authorized to incur, subject to market conditions and regulatory approvals, up to \$100 million of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures.

Contributions from Parent/Member (PPL Electric, LKE, LG&E and KU)

From time to time, LKE's member or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

Forecasted Uses of Cash

(All Registrants)

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by LKE to its member, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2018 through 2022. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected				
		2018 (b)	2019	2020	2021	2022
PPL						
Construction expenditures (a)						
Generating facilities	\$ 892	\$ 238	\$ 253	\$ 124	\$ 204	\$ 73
Distribution facilities	9,244	1,875	1,819	1,851	1,863	1,836
Transmission facilities	3,771	902	854	883	628	504
Environmental	828	429	191	91	62	55
Other	685	127	201	193	117	47
Total Capital Expenditures	<u>\$ 15,420</u>	<u>\$ 3,571</u>	<u>\$ 3,318</u>	<u>\$ 3,142</u>	<u>\$ 2,874</u>	<u>\$ 2,515</u>
PPL Electric (a)						
Distribution facilities	\$ 2,077	\$ 476	\$ 404	\$ 403	\$ 396	\$ 398
Transmission facilities	2,901	757	686	692	404	362
Total Capital Expenditures	<u>\$ 4,978</u>	<u>\$ 1,233</u>	<u>\$ 1,090</u>	<u>\$ 1,095</u>	<u>\$ 800</u>	<u>\$ 760</u>
LKE						
Generating facilities	\$ 892	\$ 238	\$ 253	\$ 124	\$ 204	\$ 73
Distribution facilities	1,699	347	388	360	338	266
Transmission facilities	870	144	169	190	225	142
Environmental	828	429	191	91	62	55
Other	663	119	196	189	114	45
Total Capital Expenditures	<u>\$ 4,952</u>	<u>\$ 1,277</u>	<u>\$ 1,197</u>	<u>\$ 954</u>	<u>\$ 943</u>	<u>\$ 581</u>
LG&E						
Generating facilities	\$ 408	\$ 127	\$ 108	\$ 35	\$ 94	\$ 44
Distribution facilities	1,084	223	265	233	210	153
Transmission facilities	161	27	36	36	40	22
Environmental	335	176	83	38	22	16
Other	331	58	97	94	58	24
Total Capital Expenditures	<u>\$ 2,319</u>	<u>\$ 611</u>	<u>\$ 589</u>	<u>\$ 436</u>	<u>\$ 424</u>	<u>\$ 259</u>

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	Total	Projected				
		2018 (b)	2019	2020	2021	2022
KU						
Generating facilities	\$ 484	\$ 111	\$ 145	\$ 89	\$ 110	\$ 29
Distribution facilities	615	124	123	127	128	113
Transmission facilities	709	117	133	154	185	120
Environmental	493	253	108	53	40	39
Other	332	61	99	95	56	21
Total Capital Expenditures	\$ 2,633	\$ 666	\$ 608	\$ 518	\$ 519	\$ 322

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$84 million for PPL and \$62 million for PPL Electric.

(b) The 2018 total excludes amounts included in accounts payable as of December 31, 2017.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2018 with proceeds from the sources noted below.

Source	PPL	PPL Electric	LKE	LG&E	KU
Issuance of common stock	X				
Issuance of long-term debt securities	X	X	X	X	
Equity contributions from parent/member		X		X	X
Short-term debt	X	X	X	X	X

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2017, estimated contractual cash obligations were as follows:

	Total	2018	2019 - 2020	2021 - 2022	After 2022
PPL					
Long-term Debt (a)	\$ 20,282	\$ 348	\$ 1,708	\$ 2,424	\$ 15,802
Interest on Long-term Debt (b)	15,318	868	1,723	1,529	11,198
Operating Leases (c)	96	28	27	16	25
Purchase Obligations (d)	3,636	1,121	1,374	563	578
Other Long-term Liabilities Reflected on the Balance Sheet (e)	565	293	272	—	—
Total Contractual Cash Obligations	\$ 39,897	\$ 2,658	\$ 5,104	\$ 4,532	\$ 27,603
PPL Electric					
Long-term Debt (a)	\$ 3,339	\$ —	\$ 100	\$ 874	\$ 2,365
Interest on Long-term Debt (b)	2,894	141	282	260	2,211
Unconditional Power Purchase Obligations	77	23	45	9	—
Total Contractual Cash Obligations	\$ 6,310	\$ 164	\$ 427	\$ 1,143	\$ 4,576

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	Total	2018	2019 - 2020	2021 - 2022	After 2022
LKE					
Long-term Debt (a)	\$ 5,200	\$ 98	\$ 1,405	\$ 250	\$ 3,447
Interest on Long-term Debt (b)	3,120	199	388	300	2,233
Operating Leases (c)	82	26	27	14	15
Coal and Natural Gas Purchase Obligations (f)	1,955	582	930	375	68
Unconditional Power Purchase Obligations (g)	593	29	53	54	457
Construction Obligations (h)	500	305	147	48	—
Pension Benefit Plan Obligations (e)	105	105	—	—	—
Other Obligations	417	151	143	70	53
Total Contractual Cash Obligations	\$ 11,972	\$ 1,495	\$ 3,093	\$ 1,111	\$ 6,273
LG&E					
Long-term Debt (a)	\$ 1,724	\$ 98	\$ 334	\$ —	\$ 1,292
Interest on Long-term Debt (b)	1,185	63	117	108	897
Operating Leases (c)	39	15	13	5	6
Coal and Natural Gas Purchase Obligations (f)	839	252	403	154	30
Unconditional Power Purchase Obligations (g)	411	20	37	38	316
Construction Obligations (h)	256	185	62	9	—
Pension Benefit Plan Obligations (e)	54	54	—	—	—
Other Obligations	149	47	59	26	17
Total Contractual Cash Obligations	\$ 4,657	\$ 734	\$ 1,025	\$ 340	\$ 2,558
KU					
Long-term Debt (a)	\$ 2,351	\$ —	\$ 596	\$ —	\$ 1,755
Interest on Long-term Debt (b)	1,719	93	186	153	1,287
Operating Leases (c)	41	10	14	9	8
Coal and Natural Gas Purchase Obligations (f)	1,115	330	527	221	37
Unconditional Power Purchase Obligations (g)	182	9	16	16	141
Construction Obligations (h)	218	101	80	37	—
Pension Benefit Plan Obligations (e)	46	46	—	—	—
Other Obligations	187	49	64	38	36
Total Contractual Cash Obligations	\$ 5,859	\$ 638	\$ 1,483	\$ 474	\$ 3,264

- (a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 9 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.
- (e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2018 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
- (f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
- (g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
- (h) Represents construction commitments, including commitments for LG&E's and KU's Trimble County landfill construction and CCR Rule Closure and Process Water Program along with LG&E's Mill Creek Gypsum Dewatering and Cane Run plant demolition, which are also reflected in the Capital Expenditures table presented above.

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Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2017, PPL declared its quarterly common stock dividend, payable January 2, 2018, at 39.5 cents per share (equivalent to \$1.58 per annum). On February 22, 2018, PPL announced that the company is increasing its common stock dividend to 41.0 cents per share on a quarterly basis (equivalent to 1.64 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors.

See Note 8 to the Financial Statements for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2017, no interest payments were deferred.

(PPL Electric, LKE, LG&E and KU)

From time to time, as determined by their respective Board of Directors, the Registrants pay dividends or distributions, as applicable, to their respective shareholders or members. Certain of the credit facilities of PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends or distributions.

(All Registrants)

See Note 7 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities in open market or privately negotiated transactions, in exchange transactions or otherwise, depending upon prevailing market conditions, available cash and other factors, and may be commenced or suspended at any time. The amounts involved may be material.

Rating Agency Actions

Moody's and S&P periodically review the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2017.

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Issuer	Senior Unsecured		Senior Secured		Commercial Paper	
	Moody's	S&P	Moody's	S&P	Moody's	S&P
PPL						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
WPD plc	Baa3	BBB+				
WPD (East Midlands)	Baa1	A-				
WPD (West Midlands)	Baa1	A-				
WPD (South Wales)	Baa1	A-				
WPD (South West)	Baa1	A-				
PPL and PPL Electric						
PPL Electric			A1	A	P-2	A-2
PPL and LKE						
LKE	Baa1	BBB+				
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

The rating agencies have taken the following actions related to the Registrants and their subsidiaries.

(PPL)

In March 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £50 million 0.01% Index-linked Senior Notes due 2029.

In September 2017, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$500 million 4.00% Senior Notes due 2047.

In September 2017, S&P affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In November 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South West)'s £250 million 2.375% Senior Notes due 2029.

(PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$475 million 3.95% First Mortgage Bonds due 2047.

In August 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for LCIDA's \$116 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016A due 2029 and LCIDA's \$108 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016B due 2027, each previously issued on behalf of PPL Electric.

In September 2017, S&P affirmed its ratings with a stable outlook for PPL Electric.

(LKE)

In September 2017, S&P affirmed its ratings with a stable outlook for LKE.

(LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$128 million 1.5% Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

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In May 2017, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's \$60 million 3.75% Environmental Facilities Revenue Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033, issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$31 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$35 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In September 2017, S&P affirmed its ratings with a stable outlook for LG&E.

(KU)

In July 2017, Moody's affirmed its rating of Aa2 and in August 2017, S&P confirmed its rating of AA for the County of Mercer, Kentucky's \$13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's \$50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's \$78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's \$54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

In September 2017, S&P affirmed its ratings with a stable outlook for KU.

In January 2018, S&P affirmed its rating of AA for the County of Mercer, Kentucky's \$13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's \$50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's \$78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's \$54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £4.7 billion (approximately \$6.4 billion) nominal value at December 31, 2017.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2017.

Guarantees for Subsidiaries (PPL)

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this

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time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 13 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements *(All Registrants)*

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 13 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 16, and 17 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

The following interest rate hedges were outstanding at December 31.

	2017				2016			
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	
PPL								
Cash flow hedges								
Cross-currency swaps (c)	\$ 702	\$ 103	\$ (84)	2028	\$ 802	\$ 191	\$ (90)	
Economic hedges								
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)	
LKE								
Economic hedges								
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)	
LG&E								
Economic hedges								
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)	

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

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The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2017 and 2016 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2017	2016
PPL	\$ 620	\$ 590
PPL Electric	162	138
LKE	168	182
LG&E	62	66
KU	92	100

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at December 31.

	2017				2016			
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Economic hedges (b)	£ 2,563	\$ 15	\$ (323)	2020	£ 1,909	\$ 184	\$ (215)	

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To economically hedge the translation of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 to the Financial Statements for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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Defined Benefit Plans - Equity Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of equity securities price risk on plan assets.

Credit Risk

(All Registrants)

Credit risk is the risk that the Registrants would incur a loss as a result of nonperformance by counterparties of their contractual obligations. The Registrants maintain credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, the Registrants, as applicable, have concentrations of suppliers and customers among electric utilities, financial institutions and energy marketing and trading companies. These concentrations may impact the Registrants' overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

(PPL and PPL Electric)

In January 2017, the PUC issued a Final Order approving PPL Electric's PLR procurement plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply semi-annually in April and October. To date, PPL Electric has conducted two of its planned eight competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2017, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Note 17 to the Financial Statements for additional information on credit risk.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2017, changes in this exchange rate resulted in a foreign currency translation gain of \$537 million, which primarily reflected a \$935 million increase to PP&E and \$198 million increase to goodwill partially offset by a \$549 million increase to long-term debt and an increase of \$47 million to other net liabilities. In 2016, changes in this exchange rate resulted in a foreign currency translation loss of \$1.1 billion, which primarily reflected a \$2.1 billion decrease to PP&E and \$490 million decrease to goodwill partially offset by a \$1.3 billion decrease to long-term debt and a decrease of \$208 million to other net liabilities. In 2015, changes in this exchange rate resulted in a foreign currency translation loss of \$240 million, which primarily reflected a \$472 million decrease to PP&E and \$117 million decrease to goodwill partially offset by a \$285 million decrease to long-term debt and a decrease of \$64 million to other net liabilities.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with,

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modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements for information on the more significant activities.

(PPL)

See Note 8 to the Financial Statements for information on the spinoff of PPL Energy Supply.

(All Registrants)

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 13 to the Financial Statements for a discussion of the more significant environmental matters including: Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2018 through 2022. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

Sustainability

Increasing attention has been focused on a broad range of corporate activities under the heading of "sustainability", which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer's business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities Exchange Act of 1934, as amended (the "'34 Act"), or that issuers voluntarily include certain sustainability disclosure in their '34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

As has been PPL's practice, to the extent sustainability issues have or may have a material impact on the Registrants' financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report and post that report on its corporate website at www.pplweb.com and on www.pplsustainability.com. Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories, together with recent efforts by the Edison Electric Institute to provide guidance as to the appropriate subset of sustainability information that can be applied consistently across the electric utility industry.

Cybersecurity

See "Cybersecurity Management" in "Item 1. Business" and "Item 1A. Risk factors" for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - General - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Note 21 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application, and the estimates and assumptions regarding them.

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in, as applicable, certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the Registrants' employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Notes 6 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors by Registrant and whether a Registrant or its subsidiaries sponsor (S) or participate in and receives allocations (P) from those plans is shown in the table below.

Plan Sponsor	PPL	PPL Electric	LKE	LG&E	KU
PPL Services	S	P			
WPD (a)	S				
LKE			S	P	P
LG&E				S	

(a) Does not sponsor or participate in other postretirement benefits plans.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets based on estimated results. Any differences between actual and estimated results are recorded in AOCI, or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.

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- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In addition to the economic assumptions above that are evaluated annually, Management must also make assumptions regarding the life expectancy of employees covered under their defined benefit pension and other postretirement benefit plans.

- U.S. - at December 31, 2014, the plan sponsors adopted the mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, at December 31, 2017, the plan sponsors updated the basis for estimating projected mortality improvements and selected the MP-2017 improvement scale for all U.S. defined benefit pension and other postretirement benefit plans. This new mortality assumption reflects the expectation of lower ongoing improvements in life expectancies.
- U.K. - at March 31 2016, the U.K. plan sponsors adopted the new mortality assumptions based on the "SAPS S2 All" tables issued by the Self-Administered Pensions Schemes' (SAPS) study for all U.K. defined benefit pension plans. In addition, the U.K. plan sponsors updated the basis for estimating projected mortality improvements and selected the CMI 2015 Core Projections model published by the Continuous Mortality Investigation study with a long-term future improvement rate of 1% for all U.K. defined benefit pension plans. These new mortality assumptions reflect the impact of the most recently available actual scheme mortality data (which has been higher than previously expected) on both current life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in a decrease to U.K. defined benefit pension obligations, a decrease to future expense and an increase to funded status.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Historically, WPD used the single weighted-average discount rate derived from the spot rates used to discount the benefit obligation. Concurrent with the annual remeasurement of plan assets and obligations at December 31, 2015, WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost.

An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions selected for discount rate, expected return on plan assets and rate of compensation increase at December 31 used to measure current year obligations and subsequent year net periodic defined benefit costs under GAAP, as applicable.

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Assumption / Registrant	2017	2016
<i>Discount rate</i>		
Pension - PPL (U.S.)	3.70%	4.21%
Pension - PPL (U.K.) Obligations	2.65%	2.87%
Pension - PPL (U.K.) Service Cost (a)	2.73%	2.99%
Pension - PPL (U.K.) Interest Cost (a)	2.31%	2.41%
Pension - LKE	3.69%	4.19%
Pension - LG&E	3.65%	4.13%
Other Postretirement - PPL	3.64%	4.11%
Other Postretirement - LKE	3.65%	4.12%
<i>Expected return on plan assets</i>		
Pension - PPL (U.S.)	7.25%	7.00%
Pension - PPL (U.K.)	7.23%	7.22%
Pension - LKE	7.25%	7.00%
Pension - LG&E	7.25%	7.00%
Other Postretirement - PPL	6.40%	6.21%
Other Postretirement - LKE	7.15%	6.82%
<i>Rate of compensation increase</i>		
Pension - PPL (U.S.)	3.78%	3.95%
Pension - PPL (U.K.)	3.50%	3.50%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.75%	3.92%
Other Postretirement - LKE	3.50%	3.50%

(a) WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 to the Financial Statements for additional details.

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2017, the health care cost trend rate for all plans was 6.6% for 2018, gradually declining to an ultimate trend rate of 5.0% in 2022.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2017, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
<i>Balance Sheet:</i>					
Regulatory assets (a)	\$ 880	\$ 504	\$ 376	\$ 234	\$ 142
Regulatory liabilities	27		27		27
Pension assets	284				
Pension liabilities	813	246	369	45	36
Other postretirement and postemployment benefit liabilities	184	62	107	74	32
AOCI (pre-tax)	3,144		150		
<i>Statement of Income:</i>					
Defined benefits expense	\$ (87)	\$ 12	\$ 33	\$ 11	\$ 5
Increase (decrease) from prior year	(52)	1	3	—	(2)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. At December 31, 2017, the balances were \$33 million for PPL and LKE, \$18 million for LG&E and \$15 million for KU. See Note 6 to the Financial Statements for additional information.

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The tables reflect either an increase or decrease in each assumption. The inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities by a similar

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amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

Actuarial assumption

Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25 %
Health Care Cost Trend Rate (a)	1 %

(a) Only impacts other postretirement benefits.

Actuarial assumption	Increase (Decrease)		Increase (Decrease)	
	Defined Benefit Liabilities	AOCI (pre-tax)	Net Regulatory Assets	Defined Benefit Costs
PPL				
Discount rates	\$ 520	\$ 416	\$ 104	\$ 43
Expected return on plan assets	n/a	n/a	n/a	27
Rate of compensation increase	72	60	12	9
Health care cost trend rate (a)	4	—	4	—
PPL Electric				
Discount rates	64	—	64	4
Expected return on plan assets	n/a	—	n/a	4
Rate of compensation increase	8	—	8	1
Health care cost trend rate (a)	1	—	1	—
LKE				
Discount rates	68	28	40	8
Expected return on plan assets	n/a	n/a	n/a	3
Rate of compensation increase	10	5	5	2
Health care cost trend rate (a)	3	—	3	—
LG&E				
Discount rates	21	n/a	21	3
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	—
Health care cost trend rate (a)	1	n/a	1	—
KU				
Discount rates	18	n/a	18	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	3	n/a	3	—
Health care cost trend rate (a)	2	n/a	2	—

(a) Only impacts other postretirement benefits.

Income Taxes (All Registrants)

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have used significant management judgment to make certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

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Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date.

At December 31, 2017, no significant changes in unrecognized tax benefits are projected over the next 12 months.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 5 to the Financial Statements for income tax disclosures, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. federal income taxes on WPD's undistributed earnings.

Regulatory Assets and Liabilities

(All Registrants)

PPL Electric, LG&E and KU, are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs

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ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 6 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2017 and 2016, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. As the regulatory model is incentive-based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is primarily evaluated based on revenue recognition guidance. See Note 1 to the Financial Statements for additional information.

Price Risk Management *(PPL)*

See "Financial Condition - Risk Management" above, as well as "Price Risk Management" in Note 1 to the Financial Statements.

Goodwill Impairment *(PPL, LKE, LG&E and KU)*

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be at the same level as its reportable segments. LKE, LG&E and KU are individually single operating and reportable segments. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL's goodwill was \$3.3 billion at December 31, 2017, which consists of \$2.6 billion related to the acquisition of WPD and \$662 million related to the acquisition of LKE. PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill, as of October 1, 2017. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year;
- changes in planned capital expenditures;

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- the consistency of forecasted free cash flows;
- earnings quality and sustainability;
- changes in market participant discount rates;
- changes in long-term growth rates;
- changes in PPL's market capitalization; and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying values. As such, the two-step quantitative impairment test was not performed.

Asset Retirement Obligations (*PPL, LKE, LG&E and KU*)

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

See Note 19 to the Financial Statements for additional information on AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

At December 31, 2017, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO Recorded	Most Significant AROs		
		Amount Recorded	% of Total	Description
PPL	\$ 397	\$ 284	72	Ponds, landfills and natural gas mains
LKE	356	284	80	Ponds, landfills and natural gas mains
LG&E	121	89	74	Ponds, landfills and natural gas mains
KU	235	195	83	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2017, a 10% increase to retirement cost would increase these ARO liabilities by \$32 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by \$4 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by \$2 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

Revenue Recognition - Unbilled Revenues (*LKE, LG&E and KU*)

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data and where applicable, the impact of

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weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2017 and 2016.

Other Information *(All Registrants)*

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Reference is made to "Risk Management" for the Registrants in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows, for the years then ended, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 22, 2018

We have served as the Company's auditor since 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2017, of the Company and our report dated February 22, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 22, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated statements of income, comprehensive income, equity, and cash flows of PPL Corporation and subsidiaries for the year ended December 31, 2015. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2) for the year ended December 31, 2015. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of PPL Corporation and subsidiaries for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 2015, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowner and the Board of Directors of PPL Electric Utilities Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 22, 2018

We have served as the Company's auditor since 2015.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowner of PPL Electric Utilities Corporation

We have audited the accompanying consolidated statements of income, equity, and cash flows of PPL Electric Utilities Corporation and subsidiaries for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of PPL Electric Utilities Corporation and subsidiaries for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Sole Member and the Board of Directors of LG&E and KU Energy LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows, for the years then ended, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 22, 2018

We have served as the Company's auditor since 2015.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated statements of income, comprehensive income, equity, and cash flows of LG&E and KU Energy LLC and subsidiaries for the year ended December 31, 2015. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2) for the year ended December 31, 2015. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of LG&E and KU Energy LLC and subsidiaries for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 2015, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and the Board of Directors of Louisville Gas and Electric Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Louisville Gas and Electric Company (the “Company”) as of December 31, 2017 and 2016, the related statements of income, equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 22, 2018

We have served as the Company's auditor since 2015.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying statements of income, equity and cash flows of Louisville Gas and Electric Company for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and the Board of Directors of Kentucky Utilities Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Kentucky Utilities Company (the "Company") as of December 31, 2017 and 2016, the related statements of income, equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 22, 2018

We have served as the Company's auditor since 2015.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the statements of income, equity and cash flows of Kentucky Utilities Company for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 19, 2016

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries**

(Millions of Dollars, except share data)

	2017	2016	2015
Operating Revenues	\$ 7,447	\$ 7,517	\$ 7,669
Operating Expenses			
Operation			
Fuel	759	791	863
Energy purchases	685	706	855
Other operation and maintenance	1,635	1,745	1,938
Depreciation	1,008	926	883
Taxes, other than income	292	301	299
Total Operating Expenses	<u>4,379</u>	<u>4,469</u>	<u>4,838</u>
Operating Income	3,068	3,048	2,831
Other Income (Expense) - net	(255)	390	108
Interest Expense	<u>901</u>	<u>888</u>	<u>871</u>
Income from Continuing Operations Before Income Taxes	1,912	2,550	2,068
Income Taxes	<u>784</u>	<u>648</u>	<u>465</u>
Income from Continuing Operations After Income Taxes	1,128	1,902	1,603
Loss from Discontinued Operations (net of income taxes) (Note 8)	<u>—</u>	<u>—</u>	<u>(921)</u>
Net Income	<u>\$ 1,128</u>	<u>\$ 1,902</u>	<u>\$ 682</u>
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:			
Basic	\$ 1.64	\$ 2.80	\$ 2.38
Diluted	\$ 1.64	\$ 2.79	\$ 2.37
Net Income Available to PPL Common Shareowners:			
Basic	\$ 1.64	\$ 2.80	\$ 1.01
Diluted	\$ 1.64	\$ 2.79	\$ 1.01
Dividends Declared Per Share of Common Stock	\$ 1.58	\$ 1.52	\$ 1.50
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	685,240	677,592	669,814
Diluted	687,334	680,446	672,586

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries**

(Millions of Dollars)

	2017	2016	2015
Net income	\$ 1,128	\$ 1,902	\$ 682
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of (\$1), (\$4), \$1	538	(1,107)	(234)
Available-for-sale securities, net of tax of \$0, \$0, (\$9)	—	—	8
Qualifying derivatives, net of tax of \$19, (\$18), \$0	(79)	91	26
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$2, \$6	—	(3)	(9)
Net actuarial gain (loss), net of tax of \$72, \$40, \$67	(308)	(61)	(366)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$0, \$0, \$2	—	—	(2)
Qualifying derivatives, net of tax of (\$18), \$21, (\$15)	73	(91)	2
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	1	(1)	(1)
Defined benefit plans:			
Prior service costs, net of tax of (\$1), (\$1), \$0	1	1	—
Net actuarial (gain) loss, net of tax of (\$37), (\$35), (\$46)	130	121	146
Total other comprehensive income (loss)	356	(1,050)	(430)
Comprehensive income	\$ 1,484	\$ 852	\$ 252

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries**

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	\$ 1,128	\$ 1,902	\$ 682
Loss from discontinued operations (net of income taxes)	—	—	921
Income from continuing operations (net of income taxes)	1,128	1,902	1,603
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by (used in) operating activities - continuing operations			
Depreciation	1,008	926	883
Amortization	97	80	59
Defined benefit plans - expense (income)	(95)	(40)	56
Deferred income taxes and investment tax credits	707	560	428
Unrealized (gains) losses on derivatives, and other hedging activities	178	19	(77)
Stock compensation expense	38	28	31
Other	(9)	(12)	(14)
Change in current assets and current liabilities			
Accounts receivable	(33)	(15)	47
Accounts payable	(10)	57	(116)
Unbilled revenues	(48)	(63)	54
Fuel, materials and supplies	40	(3)	24
Taxes payable	3	31	(175)
Regulatory assets and liabilities, net	(12)	(59)	42
Other	14	(32)	(7)
Other operating activities			
Defined benefit plans - funding	(565)	(427)	(499)
Settlement of interest rate swaps	2	(9)	(101)
Other assets	30	42	(19)
Other liabilities	(12)	(95)	53
Net cash provided by operating activities - continuing operations	2,461	2,890	2,272
Net cash provided by operating activities - discontinued operations	—	—	343
Net cash provided by operating activities	2,461	2,890	2,615
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(3,133)	(2,920)	(3,533)
Expenditures for intangible assets	(38)	(37)	(37)
Proceeds from the sale of other investments	—	2	136
Other investing activities	15	37	(5)
Net cash used in investing activities - continuing operations	(3,156)	(2,918)	(3,439)
Net cash used in investing activities - discontinued operations	—	—	(149)
Net cash used in investing activities	(3,156)	(2,918)	(3,588)
Cash Flows from Financing Activities			
Issuance of long-term debt	1,515	1,342	2,236
Retirement of long-term debt	(168)	(930)	(1,000)
Issuance of common stock	453	144	203
Payment of common stock dividends	(1,072)	(1,030)	(1,004)
Net increase in short-term debt	115	29	94
Other financing activities	(19)	6	(47)
Net cash provided by (used in) financing activities - continuing operations	824	(439)	482
Net cash used in financing activities - discontinued operations	—	—	(546)
Net cash distributions to parent from discontinued operations	—	—	132
Net cash provided by (used in) financing activities	824	(439)	68
Effect of Exchange Rates on Cash and Cash Equivalents	15	(28)	(10)
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	—	—	352
Net Increase (Decrease) in Cash and Cash Equivalents	144	(495)	(563)
Cash and Cash Equivalents at Beginning of Period	341	836	1,399

Cash and Cash Equivalents at End of Period	<u>\$</u> 485	<u>\$</u> 341	<u>\$</u> 836
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Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:

Interest - net of amount capitalized	\$ 845	\$ 854	\$ 822
Income taxes - net	\$ 65	\$ 70	\$ 179
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 360	\$ 281	\$ 310
Accrued expenditures for intangible assets at December 31,	\$ 68	\$ 117	\$ 55

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 485	\$ 341
Accounts receivable (less reserve: 2017, \$51; 2016, \$54)		
Customer	681	666
Other	100	46
Unbilled revenues	543	480
Fuel, materials and supplies	320	356
Prepayments	66	63
Price risk management assets	49	63
Other current assets	50	52
Total Current Assets	2,294	2,067
Property, Plant and Equipment		
Regulated utility plant	38,228	34,674
Less: accumulated depreciation - regulated utility plant	6,785	6,013
Regulated utility plant, net	31,443	28,661
Non-regulated property, plant and equipment	384	413
Less: accumulated depreciation - non-regulated property, plant and equipment	110	134
Non-regulated property, plant and equipment, net	274	279
Construction work in progress	1,375	1,134
Property, Plant and Equipment, net	33,092	30,074
Other Noncurrent Assets		
Regulatory assets	1,504	1,918
Goodwill	3,258	3,060
Other intangibles	697	700
Pension benefit asset	284	9
Price risk management assets	215	336
Other noncurrent assets	135	151
Total Other Noncurrent Assets	6,093	6,174
Total Assets	\$ 41,479	\$ 38,315

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,080	\$ 923
Long-term debt due within one year	348	518
Accounts payable	924	820
Taxes	105	101
Interest	282	270
Dividends	273	259
Customer deposits	292	276
Regulatory liabilities	95	101
Other current liabilities	624	569
Total Current Liabilities	4,023	3,837
Long-term Debt	19,847	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,462	3,889
Investment tax credits	129	132
Accrued pension obligations	800	1,001
Asset retirement obligations	312	428
Regulatory liabilities	2,704	899
Other deferred credits and noncurrent liabilities	441	422
Total Deferred Credits and Other Noncurrent Liabilities	6,848	6,771
Commitments and Contingent Liabilities (Notes 6 and 13)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,305	9,841
Earnings reinvested	3,871	3,829
Accumulated other comprehensive loss	(3,422)	(3,778)
Total Equity	10,761	9,899
Total Liabilities and Equity	\$ 41,479	\$ 38,315

(a) 1,560,000 shares authorized; 693,398 and 679,731 shares issued and outstanding at December 31, 2017 and December 31, 2016.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners					Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	
December 31, 2014	665,849	\$ 7	\$ 9,433	\$ 6,462	\$ (2,274)	\$ 13,628
Common stock issued	8,008		249			249
Stock-based compensation			5			5
Net income				682		682
Dividends and dividend equivalents				(1,010)		(1,010)
Distribution of PPL Energy Supply (Note 8)				(3,181)	(24)	(3,205)
Other comprehensive income (loss)					(430)	(430)
December 31, 2015	<u>673,857</u>	<u>\$ 7</u>	<u>\$ 9,687</u>	<u>\$ 2,953</u>	<u>\$ (2,728)</u>	<u>\$ 9,919</u>
Common stock issued	5,874		185			185
Stock-based compensation			(31)			(31)
Net income				1,902		1,902
Dividends and dividend equivalents				(1,033)		(1,033)
Other comprehensive income (loss)					(1,050)	(1,050)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 1)				7		7
December 31, 2016	<u>679,731</u>	<u>\$ 7</u>	<u>\$ 9,841</u>	<u>\$ 3,829</u>	<u>\$ (3,778)</u>	<u>\$ 9,899</u>
Common stock issued	13,667		482			482
Stock-based compensation			(18)			(18)
Net income				1,128		1,128
Dividends and dividend equivalents				(1,086)		(1,086)
Other comprehensive income (loss)					356	356
December 31, 2017	<u>693,398</u>	<u>\$ 7</u>	<u>\$ 10,305</u>	<u>\$ 3,871</u>	<u>\$ (3,422)</u>	<u>\$ 10,761</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries***(Millions of Dollars)*

	2017	2016	2015
Operating Revenues	\$ 2,195	\$ 2,156	\$ 2,124
Operating Expenses			
Operation			
Energy purchases	507	535	657
Energy purchases from affiliate	—	—	14
Other operation and maintenance	571	599	607
Depreciation	309	253	214
Taxes, other than income	107	105	94
Total Operating Expenses	<u>1,494</u>	<u>1,492</u>	<u>1,586</u>
Operating Income	701	664	538
Other Income (Expense) - net	11	17	8
Interest Income from Affiliate	5	—	—
Interest Expense	<u>142</u>	<u>129</u>	<u>130</u>
Income Before Income Taxes	575	552	416
Income Taxes	<u>213</u>	<u>212</u>	<u>164</u>
Net Income (a)	<u>\$ 362</u>	<u>\$ 340</u>	<u>\$ 252</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	\$ 362	\$ 340	\$ 252
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	309	253	214
Amortization	33	32	26
Defined benefit plans - expense	12	11	16
Deferred income taxes and investment tax credits	258	221	220
Other	(8)	(13)	(12)
Change in current assets and current liabilities			
Accounts receivable	(57)	16	50
Accounts payable	3	58	(107)
Unbilled revenues	(13)	(23)	22
Prepayments	3	43	(1)
Regulatory assets and liabilities	(5)	(62)	35
Taxes payable	(4)	(12)	(108)
Other	(1)	(7)	21
Other operating activities			
Defined benefit plans - funding	(24)	—	(33)
Other assets	15	19	(10)
Other liabilities	(3)	(4)	17
Net cash provided by operating activities	<u>880</u>	<u>872</u>	<u>602</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,244)	(1,125)	(1,097)
Expenditures for intangible assets	(10)	(9)	(10)
Other investing activities	2	4	(1)
Net cash used in investing activities	<u>(1,252)</u>	<u>(1,130)</u>	<u>(1,108)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	470	224	348
Retirement of long-term debt	—	(224)	(100)
Contributions from PPL	575	220	275
Payment of common stock dividends to parent	(336)	(288)	(181)
Net increase (decrease) in short-term debt	(295)	295	—
Other financing activities	(6)	(3)	(3)
Net cash provided by financing activities	<u>408</u>	<u>224</u>	<u>339</u>
Net Increase (Decrease) in Cash and Cash Equivalents	36	(34)	(167)
Cash and Cash Equivalents at Beginning of Period	13	47	214
Cash and Cash Equivalents at End of Period	<u>\$ 49</u>	<u>\$ 13</u>	<u>\$ 47</u>

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 128	\$ 115	\$ 117
Income taxes - net	\$ 4	\$ (48)	\$ 38
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 133	\$ 126	\$ 98

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries***(Millions of Dollars, shares in thousands)*

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 49	\$ 13
Accounts receivable (less reserve: 2017, \$24; 2016, \$28)		
Customer	279	272
Other	71	21
Unbilled revenues	127	114
Materials and supplies	34	32
Prepayments	6	9
Regulatory assets	16	19
Other current assets	6	8
Total Current Assets	<u>588</u>	<u>488</u>
Property, Plant and Equipment		
Regulated utility plant	10,785	9,654
Less: accumulated depreciation - regulated utility plant	2,778	2,714
Regulated utility plant, net	8,007	6,940
Construction work in progress	508	641
Property, Plant and Equipment, net	<u>8,515</u>	<u>7,581</u>
Other Noncurrent Assets		
Regulatory assets	709	1,094
Intangibles	259	251
Other noncurrent assets	11	12
Total Other Noncurrent Assets	<u>979</u>	<u>1,357</u>
Total Assets	<u>\$ 10,082</u>	<u>\$ 9,426</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 295
Long-term debt due within one year	—	224
Accounts payable	386	367
Accounts payable to affiliates	31	42
Taxes	8	12
Interest	36	34
Regulatory liabilities	86	83
Other current liabilities	98	101
Total Current Liabilities	645	1,158
Long-term Debt	3,298	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,154	1,899
Accrued pension obligations	246	281
Regulatory liabilities	668	—
Other deferred credits and noncurrent liabilities	79	90
Total Deferred Credits and Other Noncurrent Liabilities	2,147	2,270
Commitments and Contingent Liabilities (Notes 6 and 13)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154
Earnings reinvested	899	873
Total Equity	3,992	3,391
Total Liabilities and Equity	\$ 10,082	\$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2017 and December 31, 2016.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid- in capital	Earnings reinvested	Total
December 31, 2014	66,368	\$ 364	\$ 1,603	\$ 750	\$ 2,717
Net income				252	252
Capital contributions from PPL (b)			331		331
Dividends declared on common stock				(181)	(181)
December 31, 2015	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,934</u>	<u>\$ 821</u>	<u>\$ 3,119</u>
Net income				340	340
Capital contributions from PPL			220		220
Dividends declared on common stock				(288)	(288)
December 31, 2016	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,154</u>	<u>\$ 873</u>	<u>\$ 3,391</u>
Net income				362	362
Capital contributions from PPL			575		575
Dividends declared on common stock				(336)	(336)
December 31, 2017	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,729</u>	<u>\$ 899</u>	<u>\$ 3,992</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) Includes non-cash contributions of \$56 million. See Note 11 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries***(Millions of Dollars)*

	2017	2016	2015
Operating Revenues	\$ 3,156	\$ 3,141	\$ 3,115
Operating Expenses			
Operation			
Fuel	759	791	863
Energy purchases	178	171	184
Other operation and maintenance	806	804	837
Depreciation	439	404	382
Taxes, other than income	65	62	57
Total Operating Expenses	<u>2,247</u>	<u>2,232</u>	<u>2,323</u>
Operating Income	909	909	792
Other Income (Expense) - net	(3)	(9)	(8)
Interest Expense	197	197	178
Interest Expense with Affiliate	<u>18</u>	<u>17</u>	<u>3</u>
Income Before Income Taxes	691	686	603
Income Taxes	<u>375</u>	<u>257</u>	<u>239</u>
Net Income	\$ 316	\$ 429	\$ 364

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2017	2016	2015
Net income	\$ 316	\$ 429	\$ 364
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of \$1, \$0, \$2	(2)	—	(3)
Net actuarial gain (loss), net of tax of \$13, \$18, \$2	(23)	(27)	(4)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	1	(1)	—
Defined benefit plans:			
Prior service costs, net of tax of (\$1), (\$1), (\$1)	1	2	1
Net actuarial (gain) loss, net of tax of (\$2), (\$1), (\$3)	5	2	5
Total other comprehensive income (loss)	(18)	(24)	(1)
Comprehensive income	\$ 298	\$ 405	\$ 363

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	\$ 316	\$ 429	\$ 364
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	439	404	382
Amortization	24	29	27
Defined benefit plans - expense	25	27	38
Deferred income taxes and investment tax credits	294	291	236
Other	—	—	2
Change in current assets and current liabilities			
Accounts receivable	(12)	(31)	24
Accounts payable	(9)	24	(58)
Accounts payable to affiliates	2	1	(2)
Unbilled revenues	(33)	(23)	20
Fuel, materials and supplies	45	2	6
Income tax receivable	—	1	135
Taxes payable	27	(7)	10
Accrued interest	—	—	9
Other	34	(6)	23
Other operating activities			
Defined benefit plans - funding	(35)	(85)	(70)
Settlement of interest rate swaps	—	(9)	(88)
Expenditures for asset retirement obligations	(34)	(26)	(7)
Other assets	8	2	(7)
Other liabilities	8	4	19
Net cash provided by operating activities	<u>1,099</u>	<u>1,027</u>	<u>1,063</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(892)	(791)	(1,210)
Other investing activities	4	1	7
Net cash used in investing activities	<u>(888)</u>	<u>(790)</u>	<u>(1,203)</u>
Cash Flows from Financing Activities			
Net increase in notes payable with affiliates	62	109	13
Issuance of long-term note with affiliate	—	—	400
Issuance of long-term debt	160	221	1,050
Retirement of long-term debt	(70)	(246)	(900)
Distributions to member	(402)	(316)	(219)
Contributions from member	—	61	125
Net increase (decrease) in short-term debt	59	(80)	(310)
Other financing activities	(3)	(3)	(10)
Net cash provided by (used in) financing activities	<u>(194)</u>	<u>(254)</u>	<u>149</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>17</u>	<u>(17)</u>	<u>9</u>
Cash and Cash Equivalents at Beginning of Period	13	30	21
Cash and Cash Equivalents at End of Period	<u>\$ 30</u>	<u>\$ 13</u>	<u>\$ 30</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 204	\$ 198	\$ 163
Income taxes - net	\$ 48	\$ (24)	\$ (139)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 174	\$ 104	\$ 150

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries***(Millions of Dollars)*

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 30	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	246	235
Other	44	17
Unbilled revenues	203	170
Fuel, materials and supplies	254	297
Prepayments	25	24
Regulatory assets	18	20
Other current assets	8	4
Total Current Assets	<u>828</u>	<u>780</u>
Property, Plant and Equipment		
Regulated utility plant	13,187	12,746
Less: accumulated depreciation - regulated utility plant	1,785	1,465
Regulated utility plant, net	11,402	11,281
Construction work in progress	627	317
Property, Plant and Equipment, net	<u>12,029</u>	<u>11,598</u>
Other Noncurrent Assets		
Regulatory assets	795	824
Goodwill	996	996
Other intangibles	86	95
Other noncurrent assets	68	78
Total Other Noncurrent Assets	<u>1,945</u>	<u>1,993</u>
Total Assets	<u>\$ 14,802</u>	<u>\$ 14,371</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 244	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliates	225	163
Accounts payable	338	251
Accounts payable to affiliates	7	6
Customer deposits	58	56
Taxes	66	39
Price risk management liabilities	4	4
Regulatory liabilities	9	18
Interest	32	32
Asset retirement obligations	85	60
Other current liabilities	161	119
Total Current Liabilities	1,327	1,127
Long-term Debt		
Long-term debt	4,661	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	5,061	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	866	1,735
Investment tax credits	129	132
Price risk management liabilities	22	27
Accrued pension obligations	365	350
Asset retirement obligations	271	373
Regulatory liabilities	2,036	899
Other deferred credits and noncurrent liabilities	162	190
Total Deferred Credits and Other Noncurrent Liabilities	3,851	3,706
Commitments and Contingent Liabilities (Notes 6 and 13)		
Member's equity	4,563	4,667
Total Liabilities and Equity	\$ 14,802	\$ 14,371

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Millions of Dollars)

	Member's Equity
December 31, 2014	\$ 4,248
Net income	364
Contributions from member	125
Distributions to member	(219)
Other comprehensive income (loss)	(1)
December 31, 2015	\$ 4,517
Net income	429
Contributions from member	61
Distributions to member	(316)
Other comprehensive income (loss)	(24)
December 31, 2016	\$ 4,667
Net income	316
Distributions to member	(402)
Other comprehensive income (loss)	(18)
December 31, 2017	\$ 4,563

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company**

(Millions of Dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Retail and wholesale	\$ 1,422	\$ 1,406	\$ 1,407
Electric revenue from affiliate	31	24	37
Total Operating Revenues	<u>1,453</u>	<u>1,430</u>	<u>1,444</u>
Operating Expenses			
Operation			
Fuel	292	301	329
Energy purchases	160	153	166
Energy purchases from affiliate	10	14	20
Other operation and maintenance	355	355	377
Depreciation	183	170	162
Taxes, other than income	33	32	28
Total Operating Expenses	<u>1,033</u>	<u>1,025</u>	<u>1,082</u>
Operating Income	420	405	362
Other Income (Expense) – net	(5)	(5)	(6)
Interest Expense	71	71	57
Income Before Income Taxes	344	329	299
Income Taxes	131	126	114
Net Income (a)	<u>\$ 213</u>	<u>\$ 203</u>	<u>\$ 185</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company**

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	\$ 213	\$ 203	\$ 185
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	183	170	162
Amortization	14	14	11
Defined benefit plans - expense	7	8	12
Deferred income taxes and investment tax credits	126	147	126
Other	1	—	8
Change in current assets and current liabilities			
Accounts receivable	(7)	(22)	19
Accounts receivable from affiliates	4	(16)	11
Accounts payable	(7)	31	(29)
Accounts payable to affiliates	(4)	1	5
Unbilled revenues	(16)	(8)	9
Fuel, materials and supplies	12	8	3
Income tax receivable	—	4	70
Taxes payable	(15)	20	1
Accrued interest	—	—	5
Other	11	(7)	17
Other operating activities			
Defined benefit plans - funding	(4)	(46)	(26)
Settlement of interest rate swaps	—	(9)	(44)
Expenditures for asset retirement obligations	(15)	(18)	(6)
Other assets	5	—	11
Other liabilities	4	2	4
Net cash provided by operating activities	<u>512</u>	<u>482</u>	<u>554</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(458)	(439)	(689)
Net cash used in investing activities	<u>(458)</u>	<u>(439)</u>	<u>(689)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	160	125	550
Retirement of long-term debt	(70)	(150)	(250)
Payment of common stock dividends to parent	(192)	(128)	(119)
Contributions from parent	30	71	90
Net increase (decrease) in short-term debt	30	27	(122)
Other financing activities	(2)	(2)	(5)
Net cash provided by (used in) financing activities	<u>(44)</u>	<u>(57)</u>	<u>144</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10	(14)	9
Cash and Cash Equivalents at Beginning of Period	5	19	10
Cash and Cash Equivalents at End of Period	<u>\$ 15</u>	<u>\$ 5</u>	<u>\$ 19</u>

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 65	\$ 65	\$ 48
Income taxes - net	\$ 22	\$ (43)	\$ (81)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 92	\$ 56	\$ 97

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company***(Millions of Dollars, shares in thousands)*

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 15	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	116	109
Other	13	11
Unbilled revenues	91	75
Accounts receivable from affiliates	24	28
Fuel, materials and supplies	131	143
Prepayments	11	12
Regulatory assets	12	9
Other current assets	3	1
Total Current Assets	416	393
Property, Plant and Equipment		
Regulated utility plant	5,587	5,357
Less: accumulated depreciation - regulated utility plant	614	498
Regulated utility plant, net	4,973	4,859
Construction work in progress	305	133
Property, Plant and Equipment, net	5,278	4,992
Other Noncurrent Assets		
Regulatory assets	411	450
Goodwill	389	389
Other intangibles	53	59
Other noncurrent assets	12	17
Total Other Noncurrent Assets	865	915
Total Assets	\$ 6,559	\$ 6,300

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company**

(Millions of Dollars, shares in thousands)

	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 199	\$ 169
Long-term debt due within one year	98	194
Accounts payable	179	148
Accounts payable to affiliates	23	26
Customer deposits	27	27
Taxes	25	40
Price risk management liabilities	4	4
Regulatory liabilities	3	5
Interest	11	11
Asset retirement obligations	24	41
Other current liabilities	52	36
Total Current Liabilities	645	701
Long-term Debt	1,611	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	572	974
Investment tax credits	35	36
Price risk management liabilities	22	27
Accrued pension obligations	45	53
Asset retirement obligations	97	104
Regulatory liabilities	919	419
Other deferred credits and noncurrent liabilities	86	87
Total Deferred Credits and Other Noncurrent Liabilities	1,776	1,700
Commitments and Contingent Liabilities (Notes 6 and 13)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,712	1,682
Earnings reinvested	391	370
Total Equity	2,527	2,476
Total Liabilities and Equity	\$ 6,559	\$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2017 and December 31, 2016.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2014	21,294	\$ 424	\$ 1,521	\$ 229	\$ 2,174
Net income				185	185
Capital contributions from LKE			90		90
Cash dividends declared on common stock				(119)	(119)
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				203	203
Capital contributions from LKE			71		71
Cash dividends declared on common stock				(128)	(128)
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				213	213
Capital contributions from LKE			30		30
Cash dividends declared on common stock				(192)	(192)
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company***(Millions of Dollars)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Retail and wholesale	\$ 1,734	\$ 1,735	\$ 1,708
Electric revenue from affiliate	10	14	20
Total Operating Revenues	<u>1,744</u>	<u>1,749</u>	<u>1,728</u>
Operating Expenses			
Operation			
Fuel	467	490	534
Energy purchases	18	18	18
Energy purchases from affiliate	31	24	37
Other operation and maintenance	424	424	435
Depreciation	255	234	220
Taxes, other than income	32	30	29
Total Operating Expenses	<u>1,227</u>	<u>1,220</u>	<u>1,273</u>
Operating Income	517	529	455
Other Income (Expense) – net	(3)	(5)	1
Interest Expense	96	96	82
Income Before Income Taxes	418	428	374
Income Taxes	159	163	140
Net Income (a)	<u>\$ 259</u>	<u>\$ 265</u>	<u>\$ 234</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company**

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	\$ 259	\$ 265	\$ 234
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	255	234	220
Amortization	9	14	13
Defined benefit plans - expense	4	5	10
Deferred income taxes and investment tax credits	152	126	160
Other	—	(1)	(5)
Change in current assets and current liabilities			
Accounts receivable	(5)	(8)	5
Accounts receivable from affiliates	—	1	(1)
Accounts payable	—	(10)	(32)
Accounts payable to affiliates	(6)	15	(10)
Unbilled revenues	(17)	(15)	11
Fuel, materials and supplies	32	(6)	3
Income tax receivable	—	—	59
Taxes payable	(26)	25	6
Accrued interest	—	—	5
Other	7	(3)	4
Other operating activities			
Defined benefit plans - funding	(23)	(20)	(21)
Settlement of interest rate swaps	—	—	(44)
Expenditures for asset retirement obligations	(19)	(8)	(1)
Other assets	3	(6)	(11)
Other liabilities	9	(2)	3
Net cash provided by operating activities	<u>634</u>	<u>606</u>	<u>608</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(432)	(350)	(519)
Other investing activities	4	1	7
Net cash used in investing activities	<u>(428)</u>	<u>(349)</u>	<u>(512)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	—	96	500
Retirement of long-term debt	—	(96)	(250)
Payment of common stock dividends to parent	(226)	(248)	(153)
Contributions from parent	—	20	—
Net increase (decrease) in short-term debt	29	(32)	(188)
Other financing activities	(1)	(1)	(5)
Net cash used in financing activities	<u>(198)</u>	<u>(261)</u>	<u>(96)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8	(4)	—
Cash and Cash Equivalents at Beginning of Period	7	11	11
Cash and Cash Equivalents at End of Period	<u>\$ 15</u>	<u>\$ 7</u>	<u>\$ 11</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 92	\$ 89	\$ 75
Income taxes - net	\$ 34	\$ 13	\$ (84)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 82	\$ 47	\$ 53

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company***(Millions of Dollars, shares in thousands)*

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 15	\$ 7
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	130	126
Other	30	5
Unbilled revenues	112	95
Fuel, materials and supplies	123	154
Prepayments	14	12
Regulatory assets	6	11
Other current assets	5	3
Total Current Assets	435	413
Property, Plant and Equipment		
Regulated utility plant	7,592	7,382
Less: accumulated depreciation - regulated utility plant	1,170	965
Regulated utility plant, net	6,422	6,417
Construction work in progress	321	181
Property, Plant and Equipment, net	6,743	6,598
Other Noncurrent Assets		
Regulatory assets	384	374
Goodwill	607	607
Other intangibles	33	36
Other noncurrent assets	52	57
Total Other Noncurrent Assets	1,076	1,074
Total Assets	\$ 8,254	\$ 8,085

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31, Kentucky Utilities Company

(Millions of Dollars, shares in thousands)

	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 45	\$ 16
Accounts payable	137	78
Accounts payable to affiliates	53	56
Customer deposits	31	29
Taxes	19	45
Regulatory liabilities	6	13
Interest	16	16
Asset retirement obligations	61	19
Other current liabilities	46	36
Total Current Liabilities	414	308
Long-term Debt	2,328	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	691	1,170
Investment tax credits	94	96
Accrued pension obligations	36	62
Asset retirement obligations	174	269
Regulatory liabilities	1,117	480
Other deferred credits and noncurrent liabilities	43	50
Total Deferred Credits and Other Noncurrent Liabilities	2,155	2,127
Commitments and Contingent Liabilities (Notes 6 and 13)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	433	400
Total Equity	3,357	3,323
Total Liabilities and Equity	\$ 8,254	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2017 and December 31, 2016.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY
Kentucky Utilities Company

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2014	37,818	\$ 308	\$ 2,596	\$ 302	\$ —	\$ 3,206
Net income				234		234
Cash dividends declared on common stock				(153)		(153)
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Net income				265		265
Capital contributions from LKE			20			20
Cash dividends declared on common stock				(248)		(248)
Other comprehensive income (loss)					(1)	(1)
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				259		259
Cash dividends declared on common stock				(226)		(226)
Other comprehensive income (loss)					1	1
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

Capitalized terms and abbreviations appearing in the combined notes to financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(PPL)

"Loss from Discontinued Operations (net of income taxes)" on the 2015 Statement of Income includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statement of Cash Flows for the same period separately reports the cash flows of the discontinued operations. See Note 8 for additional information.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and as a result are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to

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exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(PPL Electric, LG&E and KU)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

(All Registrants)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-

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based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. The accounting department provides the treasury department with guidelines on appropriate accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP-denominated earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

(All Registrants)

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

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See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	2017	2016	2015
Domestic electric and gas revenues (a)	\$ 5,351	\$ 5,297	\$ 5,239
U.K. operating revenues (b)	2,091	2,207	2,410
Domestic - other	5	13	20
Total	<u>\$ 7,447</u>	<u>\$ 7,517</u>	<u>\$ 7,669</u>

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.

(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties and adjustments for over or under-recovery from prior periods.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated primarily based on revenue recognition accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is adjusted during the price control period. The most significant of those adjustments are:

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.
- Annual Iteration Process (AIP) - The RIIO-ED1 price control period also includes an AIP. This will allow future base demand revenues agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1

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plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.
- Correction Factor - During the current price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years when they are billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment occurred in the 2016/17 regulatory year.

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2017	\$ 54	\$ 28	\$ (1)	\$ 30	\$ 51
2016	41	44	—	31	54
2015	44	49	(2)	50	41
PPL Electric					
2017	\$ 28	\$ 18	\$ —	\$ 22	\$ 24
2016	16	35	—	23	28
2015	17	39	—	40	16

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	Balance at Beginning of Period	Additions			Balance at End of Period
		Charged to Income	Charged to Other Accounts	Deductions (a)	
LKE					
2017	\$ 24	\$ 8	\$ (1)	\$ 6	\$ 25
2016	23	8	—	7	24
2015	25	9	(2)	9	23
LG&E					
2017	\$ 2	\$ 2	\$ (1)	\$ 2	\$ 1
2016	1	2	1	2	2
2015	2	2	—	3	1
KU					
2017	\$ 2	\$ 4	\$ (1)	\$ 4	\$ 1
2016	2	4	—	4	2
2015	2	5	—	5	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(PPL and PPL Electric)

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

At December 31, the balances of restricted cash and cash equivalents included the following:

	PPL		PPL Electric	
	2017	2016	2017	2016
Low carbon network fund (a)	\$ 17	\$ 17	\$ —	\$ —
Other	9	9	2	2
Total	\$ 26	\$ 26	\$ 2	\$ 2

(a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

(All Registrants)

Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the

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assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

(PPL, LKE, LG&E and KU)

Cost Method Investment

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are conditionally responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. See Notes 6, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 6 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was \$11 million in 2017, 2016 and 2015.

Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2017	2016	2015
PPL	2.65%	2.73%	2.57%
PPL Electric	2.86%	2.63%	2.46%
LKE	3.64%	3.69%	3.69%
LG&E	3.63%	3.58%	3.65%
KU	3.66%	3.77%	3.71%

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed

or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill as of October 1, 2017. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year;
- changes in planned capital expenditures;
- the consistency of forecasted free cash flows;
- earnings quality and sustainability;
- changes in market participant discount rates;
- changes in long-term growth rates
- changes in PPL's market capitalization; and,
- the overall economic and regulatory environments in which these regulated entities operate.

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Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying value. As such, the two-step quantitative impairment test was not performed and no impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 6 and Note 19 for additional information on AROs.

Compensation and Benefits

Defined Benefits *(All Registrants)*

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 6 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

Discount Rate Change for U.K. Pension Plans *(PPL)*

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of \$43 million (\$34 million after-tax or \$0.05 per share).

See Note 11 for additional information.

Stock-Based Compensation *(PPL, PPL Electric and LKE)*

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-

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based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have used significant management judgment to make certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

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See Note 5 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

(PPL Electric, LKE, LG&E and KU)

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2017	2016
PPL Electric	\$ 61	\$ 13
LKE	(23)	1
LG&E	—	(18)
KU	—	(29)

Taxes, Other Than Income *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016	2017	2016
Fuel	\$ 107	\$ 158	\$ 107	\$ 158	\$ 45	\$ 60	\$ 62	\$ 98
Natural gas stored underground	43	42	43	42	43	42	—	—
Materials and supplies	170	156	104	97	43	41	61	56
Total	\$ 320	\$ 356	\$ 254	\$ 297	\$ 131	\$ 143	\$ 123	\$ 154

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Guarantees (All Registrants)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL)

PPL restores all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs.

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs, which is presented to reconcile segment information to PPL's consolidated results.

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which substantially represented PPL's Supply segment. As a result of this transaction, PPL no longer has a Supply segment and its results are presented in "Discontinued Operations". See Note 8 for additional information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

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	2017	2016	2015
Operating Revenues from external customers (a)			
U.K. Regulated	\$ 2,091	\$ 2,207	\$ 2,410
Kentucky Regulated	3,156	3,141	3,115
Pennsylvania Regulated	2,195	2,156	2,124
Corporate and Other	5	13	20
Total	\$ 7,447	\$ 7,517	\$ 7,669
Depreciation			
U.K. Regulated	\$ 230	\$ 233	\$ 242
Kentucky Regulated	439	404	382
Pennsylvania Regulated	309	253	214
Corporate and Other	30	36	45
Total	\$ 1,008	\$ 926	\$ 883
Amortization (b)			
U.K. Regulated	\$ 34	\$ 16	\$ 6
Kentucky Regulated	24	29	27
Pennsylvania Regulated	33	32	26
Corporate and Other	6	3	—
Total	\$ 97	\$ 80	\$ 59
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	\$ 166	\$ 13	\$ (88)
Kentucky Regulated	6	6	11
Corporate and Other	6	—	—
Total	\$ 178	\$ 19	\$ (77)
Interest Expense			
U.K. Regulated	\$ 397	\$ 402	\$ 417
Kentucky Regulated	261	260	232
Pennsylvania Regulated	142	129	130
Corporate and Other	101	97	92
Total	\$ 901	\$ 888	\$ 871
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	\$ 804	\$ 1,479	\$ 1,249
Kentucky Regulated	645	640	547
Pennsylvania Regulated	575	550	416
Corporate and Other (d)	(112)	(119)	(144)
Total	\$ 1,912	\$ 2,550	\$ 2,068
Income Taxes (e)			
U.K. Regulated	\$ 152	\$ 233	\$ 128
Kentucky Regulated	359	242	221
Pennsylvania Regulated	216	212	164
Corporate and Other (d)	57	(39)	(48)
Total	\$ 784	\$ 648	\$ 465
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	\$ 66	\$ 31	\$ 45
Kentucky Regulated	294	291	236
Pennsylvania Regulated	257	221	220

Corporate and Other (d)	90	17	(73)
Total	<u>\$ 707</u>	<u>\$ 560</u>	<u>\$ 428</u>

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	2017	2016	2015
Net Income			
U.K. Regulated	\$ 652	\$ 1,246	\$ 1,121
Kentucky Regulated	286	398	326
Pennsylvania Regulated	359	338	252
Corporate and Other (d)	(169)	(80)	(96)
Discontinued Operations (g)	—	—	(921)
Total	\$ 1,128	\$ 1,902	\$ 682

- (a) See Note 1 for additional information on Operating Revenues.
 (b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
 (c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.
 (d) 2015 includes certain costs related to the spinoff of PPL Energy Supply, including deferred income tax expense, transition costs and separation benefits for PPL Services employees. See Note 8 for additional information.
 (e) Represents both current and deferred income taxes, including investment tax credits. See Note 5 for additional information on the impact of the TCJA in 2017.
 (f) Represents a non-cash expense item that is also included in "Income Taxes."
 (g) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply and five months of Supply segment earnings. See Note 8 for additional information on these transactions.

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2017	2016	2015
Expenditures for long-lived assets			
U.K. Regulated	\$ 1,015	\$ 1,031	\$ 1,242
Kentucky Regulated	892	791	1,210
Pennsylvania Regulated	1,254	1,134	1,107
Corporate and Other	10	1	11
Total	\$ 3,171	\$ 2,957	\$ 3,570

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	As of December 31,	
	2017	2016
Total Assets		
U.K. Regulated (a)	\$ 16,813	\$ 14,537
Kentucky Regulated	14,468	14,037
Pennsylvania Regulated	10,082	9,426
Corporate and Other (b)	116	315
Total	\$ 41,479	\$ 38,315

- (a) Includes \$12.5 billion and \$10.8 billion of net PP&E as of December 31, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
 (b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

Geographic data for the years ended December 31 are as follows:

	2017	2016	2015
Revenues from external customers			
U.K.	\$ 2,091	\$ 2,207	\$ 2,410
U.S.	5,356	5,310	5,259
Total	\$ 7,447	\$ 7,517	\$ 7,669
		As of December 31,	
		2017	2016
Long-Lived Assets			
U.K.		\$ 12,851	\$ 11,177
U.S.		20,936	19,595
Total		\$ 33,787	\$ 30,772

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(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

3. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2017, 2016 or 2015.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2017, 2016 or 2015.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2017, 2016 or 2015.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2017, 2016 or 2015.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31, used in the EPS calculation are:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Income (Numerator)			
Income from continuing operations after income taxes	\$ 1,128	\$ 1,902	\$ 1,603
Less amounts allocated to participating securities	2	6	6
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	<u>\$ 1,126</u>	<u>\$ 1,896</u>	<u>\$ 1,597</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (921)</u>
Net income	\$ 1,128	\$ 1,902	\$ 682
Less amounts allocated to participating securities	2	6	2
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 1,126</u>	<u>\$ 1,896</u>	<u>\$ 680</u>

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	2017	2016	2015
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	685,240	677,592	669,814
Add incremental non-participating securities:			
Share-based payment awards (a)	2,094	2,854	2,772
Weighted-average shares - Diluted EPS	687,334	680,446	672,586
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 1.64	\$ 2.80	\$ 2.38
Income (loss) from discontinued operations (net of income taxes)	—	—	(1.37)
Net Income	\$ 1.64	\$ 2.80	\$ 1.01
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 1.64	\$ 2.79	\$ 2.37
Income (loss) from discontinued operations (net of income taxes)	—	—	(1.36)
Net Income	\$ 1.64	\$ 2.79	\$ 1.01

(a) The Treasury Stock Method was applied to non-participating share-based payment awards.

For the year ended December 31, PPL issued common stock related to stock-based compensation plans and DRIP as follows (in thousands):

	2017
Stock-based compensation plans (a)	1,748
DRIP	1,552

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under ATM Program.

For the years ended December 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive:

	2017	2016	2015
Stock options	696	696	1,087
Performance units	—	176	36

5. Income and Other Taxes

(All Registrants)

Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants are:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and

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- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

Under GAAP, the tax effect of changes in tax laws must be recognized in the period in which the law is enacted, or December 2017 for TCJA. The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Income tax expense (benefit)	\$ 321	\$ (13)	\$ 112	\$ —	\$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

GAAP requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Registrants' deferred taxes were remeasured based upon the new U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The rate reduction on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Income tax expense (benefit)	\$ 220	\$ (13)	\$ 112	\$ —	\$ —

As indicated in Note 1 - "Summary of Significant Accounting Policies - Income Taxes", PPL's U.S. regulated operations' accounting for income taxes are impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Net Increase in Regulatory Liabilities	\$ 2,185	\$ 1,019	\$ 1,166	\$ 532	\$ 634

Prior to the TCJA, PPL Electric had recorded a net regulatory asset related to taxes recoverable on certain property related deferred taxes, the tax benefit of which was received by the customer. The net regulatory asset represents the future taxes owed in excess of taxes paid by the customer to date, with an additional tax gross-up. As a result of the U.S. federal corporate income tax rate reduction enacted by the TCJA, the future taxes expected to be due are now less than taxes funded through rates, resulting in a net regulatory liability.

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was \$101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

SEC Guidance on Accounting for TCJA

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On December 22, 2017, the SEC issued guidance for accounting for income taxes in the event that information is not available or is incomplete for purposes of reflecting the impact of the TCJA. The SEC guidance provides a period of up to one year (the measurement period) to complete the analysis and accounting to properly reflect the TCJA. The SEC guidance provides a three-step process that companies should apply to each reporting period within the measurement period:

1. A company should record the effects of the TCJA for which the accounting is complete.
2. A company should report provisional amounts (or adjustments to provisional amounts) for the effects of the TCJA for which the accounting is not complete, but for which a reasonable estimate can be determined. Provisional amounts and any related adjustments to such provisional amounts should be recorded to income tax expense through continuing operations in the period they are identified.
3. A company should continue to apply GAAP based on the tax law in effect just prior to enactment of TCJA if a reasonable estimate of the specific effect of the TCJA cannot be made.

The measurement period ends at the earlier of the time the company finalizes its accounting for the impact of the TCJA or one year.

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have made certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional within the meaning of the SEC guidance due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following:

	2017	2016	2015
Domestic income	\$ 874	\$ 1,463	\$ 968
Foreign income	1,038	1,087	1,100
Total	\$ 1,912	\$ 2,550	\$ 2,068

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

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	2017 (a)	2016
Deferred Tax Assets		
Deferred investment tax credits	\$ 33	\$ 51
Regulatory liabilities	62	94
Income taxes due to customer (b)	499	—
Accrued pension costs	159	250
Federal loss carryforwards	356	565
State loss carryforwards	409	326
Federal and state tax credit carryforwards	455	256
Foreign capital loss carryforwards	329	302
Foreign loss carryforwards	2	3
Foreign - pensions	(32)	41
Foreign - regulatory obligations	2	6
Foreign - other	7	5
Contributions in aid of construction	134	141
Domestic - other	104	188
Unrealized losses on qualifying derivatives	10	20
Valuation allowances	(838)	(593)
Total deferred tax assets	<u>1,691</u>	<u>1,655</u>
Deferred Tax Liabilities		
Domestic plant - net (b)	3,168	4,325
Taxes recoverable through future rates (b)	—	170
Regulatory assets	211	343
Reacquired debt costs	15	25
Foreign plant - net	726	640
Domestic - other	9	14
Total deferred tax liabilities	<u>4,129</u>	<u>5,517</u>
Net deferred tax liability	<u>\$ 2,438</u>	<u>\$ 3,862</u>

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(b) The impact on net deferred tax liabilities as a result of the U.S. federal corporate income tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, \$24 million and \$27 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2017 and 2016.

At December 31, 2017, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses (a)	\$ 1,662	\$ 349	\$ —	2029-2037
Federal charitable contributions (a)	36	7	—	2020-2022
State net operating losses (a)	5,512	407	(348)	2018-2037
State charitable contributions (a)	26	2	—	2018-2022
Foreign net operating losses	10	2	—	Indefinite
Foreign capital losses	1,938	329	(329)	Indefinite
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit (b)		30	—	Indefinite
Federal foreign tax credits (c)		267	(148)	2024-2027
Federal - other		24	(8)	2019-2037
State - other		1	—	Indefinite

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- (a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.
- (b) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.
- (c) Includes \$62 million of foreign tax credits carried forward from 2016 and \$205 million of additional foreign tax credits in 2017 related to the taxable deemed dividend associated with the TCJA.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2017	\$ 593	\$ 256 (a)	\$ —	\$ 11	\$ 838
2016	662	17	2	88 (b)	593
2015	622	24	77 (c)	61 (b)	662

- (a) Increase in valuation allowance of approximately \$145 million related to expected future utilization of both 2017 foreign tax credits and pre-2017 foreign tax credits carried forward. For additional information, see the "Reconciliation of Income Tax Expense" and associated notes below.

In addition, the reduction of the U.S. federal corporate income tax rate enacted by the TCJA in 2017 resulted in a \$62 million increase in federal deferred tax assets and a corresponding valuation allowance related to the federal tax benefits of state net operating losses.

- (b) The reductions of the U.K. statutory income tax rates in 2016 and 2015 resulted in \$19 million and \$44 million in reductions in the deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts 2016 and 2015. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately \$65 million due to the effect of foreign currency exchange rates.
- (c) Valuation allowance related to the deferred tax assets previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

PPL Global does not record U.S. income taxes on the unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year's earnings of the WPD group. As noted above, the TCJA includes a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend from the U.K. The total amount of the taxable deemed dividend was approximately \$462 million, including \$205 million of foreign tax credits. The U.S. tax consequences of the deemed dividend have been recorded in PPL's 2017 tax provision and are explained below. Despite this 2017 deemed dividend, there have been no material changes to the facts underlying PPL's assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2017 was \$6.0 billion. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	\$ 6	\$ (14)	\$ (26)
Current - State	25	21	25
Current - Foreign	45	80	89
Total Current Expense	76	87	88
Deferred - Federal (a)	532	385	699
Deferred - State	88	89	68
Deferred - Foreign	133	86	41
Total Deferred Expense, excluding operating loss carryforwards	753	560	808

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	2017	2016	2015
Income Tax Expense (Benefit)			
Amortization of investment tax credit	(3)	(3)	(4)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (b)	(16)	25	(396)
Deferred - State	(26)	(21)	(31)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(42)	4	(427)
Total income taxes from continuing operations	\$ 784	\$ 648	\$ 465
Total income tax expense - Federal			
	\$ 519	\$ 393	\$ 273
Total income tax expense - State			
	87	89	62
Total income tax expense - Foreign			
	178	166	130
Total income taxes from continuing operations	\$ 784	\$ 648	\$ 465

- (a) Due to the enactment of the TCJA in 2017, PPL recorded the following:
- \$220 million of deferred income tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities;
 - \$162 million of deferred tax expense related to the utilization of current year losses resulting from the taxable deemed dividend; partially offset by,
 - \$60 million of deferred tax benefits related to the \$205 million of 2017 foreign tax credits partially offset by \$145 million of valuation allowances.
- (b) Increase in federal loss carryforwards for 2015 primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to provision to return adjustments.

In the table above, the following income tax expense (benefit) are excluded from income taxes from continuing operations:

	2017	2016	2015
Discontinued operations - PPL Energy Supply Segment	\$ —	\$ —	\$ (30)
Stock-based compensation recorded to Earnings Reinvested	—	(7)	—
Other comprehensive income	(34)	(6)	(2)
Valuation allowance on state deferred taxes recorded to other comprehensive income	(1)	1	(4)
Total	\$ (35)	\$ (12)	\$ (36)

	2017	2016	2015
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 669	\$ 893	\$ 724
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	46	46	31
Valuation allowance adjustments (a)	36	16	24
Impact of lower U.K. income tax rates (b)	(176)	(177)	(176)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	47	(42)	8
Federal and state tax reserves adjustments (d)	—	—	(22)
Foreign income return adjustments	(8)	2	—
Impact of the U.K. Finance Acts on deferred tax balances (b)	(16)	(49)	(91)
Depreciation not normalized	(10)	(10)	(5)
Interest benefit on U.K. financing entities	(16)	(17)	(20)
Stock-based compensation (e)	(3)	(10)	—
Deferred tax impact of U.S. tax reform (f)	220	—	—
Other	(5)	(4)	(8)
Total increase (decrease)	115	(245)	(259)
Total income taxes from continuing operations	\$ 784	\$ 648	\$ 465
Effective income tax rate	41.0%	25.4%	22.5%

- (a) During 2017, PPL recorded an increase in valuation allowances of \$23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2017 and 2016, PPL recorded deferred income tax expense of \$16 million and \$13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded \$24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of \$12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and \$12 million of

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federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

- (b) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a \$42 million deferred income tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a \$90 million deferred income tax benefit during 2015, related to both rate decreases.

- (c) During 2017, PPL recorded a federal income tax benefit of \$35 million primarily attributable to U.K. pension contributions.

During 2017, PPL recorded deferred income tax expense of \$83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million, including \$205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only \$83 million of the \$205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of \$122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of \$205 million offset by a valuation allowance of \$122 million.

During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

- (d) During 2015, PPL recorded a \$9 million income tax benefit related to a planned amendment of a prior period tax return and a \$12 million income tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.
- (e) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.
- (f) During 2017, PPL recorded deferred income tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
State gross receipts (a)	\$ 102	\$ 100	\$ 89
State capital stock	(6)	—	—
Foreign property	127	135	148
Domestic Other	69	66	62
Total	\$ 292	\$ 301	\$ 299

- (a) In 2015, the settlement of a 2011 gross receipts tax audit resulted in the reversal of \$17 million of previously recognized reserves.

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Accrued pension costs	\$ 63	\$ 107
Contributions in aid of construction	117	112
Regulatory liabilities	25	34
Income taxes due to customers (b)	193	—
State loss carryforwards	19	22
Federal loss carryforwards	91	147
Other	45	81
Total deferred tax assets	553	503
Deferred Tax Liabilities		
Electric utility plant - net (b)	1,544	2,001
Taxes recoverable through future rates (b)	—	141
Reacquired debt costs	8	15
Regulatory assets	150	240
Other	5	5
Total deferred tax liabilities	1,707	2,402
Net deferred tax liability	\$ 1,154	\$ 1,899

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

At December 31, 2017, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards (a)			
Federal net operating losses	\$ 426	\$ 89	2031-2037
Federal charitable contributions	8	2	2020-2022
State net operating losses	233	18	2030-2032
State charitable contributions	13	1	2018-2022

(a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.

Credit carryforwards were insignificant at December 31, 2017.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	\$ (65)	\$ (29)	\$ (80)
Current - State	20	19	23
Total Current Expense (Benefit)	(45)	(10)	(57)
Deferred - Federal (a)	234	193	287
Deferred - State	29	29	12
Total Deferred Expense, excluding operating loss carryforwards	263	222	299

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	2017	2016	2015
Amortization of investment tax credit	—	—	—
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(5)	—	(75)
Deferred - State	—	—	(3)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(5)	—	(78)
Total income tax expense	\$ 213	\$ 212	\$ 164
Total income tax expense - Federal	\$ 164	\$ 164	\$ 132
Total income tax expense - State	49	48	32
Total income tax expense	\$ 213	\$ 212	\$ 164

- (a) Due to the enactment of the TCJA in 2017, PPL Electric recorded a \$13 million deferred tax benefit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 201	\$ 193	\$ 146
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	36	36	25
Depreciation not normalized	(8)	(8)	(4)
Stock-based compensation (a)	(2)	(6)	—
Deferred tax impact of U.S. tax reform (b)	(13)	—	—
Other	(1)	(3)	(3)
Total increase (decrease)	12	19	18
Total income tax expense	\$ 213	\$ 212	\$ 164
Effective income tax rate	37.0%	38.4%	39.4%

- (a) During 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.
- (b) During 2017, PPL Electric recorded a deferred tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
State gross receipts (a)	\$ 102	\$ 100	\$ 89
Property and other	5	5	5
Total	\$ 107	\$ 105	\$ 94

- (a) In 2015, the settlement of a 2011 gross receipts tax audit resulted in the reversal of \$17 million of previously recognized reserves.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	\$ 150	\$ 248
State loss carryforwards	41	35
Federal tax credit carryforwards	181	186
Contributions in aid of construction	17	29
Regulatory liabilities	37	60
Accrued pension costs	29	58
Income taxes due to customers (b)	305	15
Deferred investment tax credits	33	51
Derivative liability	7	12
Other	26	49
Valuation allowances	(8)	(11)
Total deferred tax assets	818	732
Deferred Tax Liabilities		
Plant - net (b)	1,615	2,352
Regulatory assets	61	102
Other	8	13
Total deferred tax liabilities	1,684	2,467
Net deferred tax liability	\$ 866	\$ 1,735

- (a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

At December 31, 2017, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards (a)				
Federal net operating losses	\$ 713	\$ 150	\$ —	2028-2037
Federal charitable contributions	14	3	—	2020-2022
State net operating losses	874	41	—	2028-2037
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit (b)		27	—	Indefinite
Federal - other		21	(8)	2019-2037
State - other		1	—	Indefinite

- (a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.
(b) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2017	\$ 11	\$ 4 (a)	\$ 7 (b)	\$ 8
2016	12	—	1 (b)	11
2015	—	12 (c)	—	12

- (a) Federal tax credits expiring in 2021 that are more likely than not to expire before being utilized.
(b) Federal tax credit expiring.
(c) Federal tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.

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Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	\$ 74	\$ (36)	\$ 2
Current - State	6	1	1
Total Current Expense (Benefit)	80	(35)	3
Deferred - Federal (a)	268	248	405
Deferred - State	32	38	32
Total Deferred Expense, excluding benefits of operating loss carryforwards	300	286	437
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(2)	10	(198)
Deferred - State	—	(1)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(2)	9	(198)
Total income tax expense from continuing operations (b)	\$ 375	\$ 257	\$ 239
Total income tax expense - Federal	\$ 337	\$ 219	\$ 206
Total income tax expense - State	38	38	33
Total income tax expense from continuing operations (b)	\$ 375	\$ 257	\$ 239

- (a) Due to the enactment of the TCJA in 2017, LKE recorded \$112 million of deferred income tax expense, of which \$108 million related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities and \$4 million related to valuation allowances on tax credits expiring in 2021.
- (b) Excludes deferred federal and state tax expense (benefit) recorded to OCI of \$(10) million in 2017, \$(16) million in 2016 and less than \$(1) million in 2015.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 242	\$ 240	\$ 211
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	25	25	22
Amortization of investment tax credit	(3)	(3)	(3)
Valuation allowance adjustment (a)	—	—	12
Stock-based compensation (b)	1	(3)	—
Deferred tax impact of U.S. tax reform (c)	112	—	—
Other	(2)	(2)	(3)
Total increase	133	17	28
Total income tax expense	\$ 375	\$ 257	\$ 239
Effective income tax rate	54.3%	37.5%	39.6%

- (a) Represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
- (b) During 2016, LKE recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.
- (c) During 2017, LKE recorded deferred income tax expense primarily due to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
Property and other	\$ 65	\$ 62	\$ 57
Total	\$ 65	\$ 62	\$ 57

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	\$ 29	\$ 80
Contributions in aid of construction	11	18
Regulatory liabilities	21	34
Deferred investment tax credits	9	14
Income taxes due to customers (b)	142	17
Derivative liability	7	12
Other	12	17
Total deferred tax assets	231	192
Deferred Tax Liabilities		
Plant - net (b)	724	1,058
Regulatory assets	40	65
Accrued pension costs	34	35
Other	5	8
Total deferred tax liabilities	803	1,166
Net deferred tax liability	\$ 572	\$ 974

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2017, LG&E had \$140 million of federal net operating loss carryforwards that expire in 2035 and \$6 million of federal credit carryforwards that expire from 2034 to 2037.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	\$ —	\$ (22)	\$ (15)
Current - State	5	1	3
Total current Expense (Benefit)	5	(21)	(12)
Deferred - Federal	112	134	190
Deferred - State	14	18	13
Total Deferred Expense, excluding benefits of operating loss carryforwards	126	152	203
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Tax benefit of operating loss carryforwards			
Deferred - Federal	1	(4)	(76)
Total Tax Benefit of Operating Loss Carryforwards	1	(4)	(76)
Total income tax expense	\$ 131	\$ 126	\$ 114
Total income tax expense - Federal	\$ 112	\$ 107	\$ 98
Total income tax expense - State	19	19	16
Total income tax expense	\$ 131	\$ 126	\$ 114

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	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at			
statutory tax rate - 35%	\$ 120	\$ 115	\$ 105
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	13	12	11
Amortization of investment tax credit	(1)	(1)	(1)
Other	(1)	—	(1)
Total increase	11	11	9
Total income tax expense	\$ 131	\$ 126	\$ 114
Effective income tax rate	38.1%	38.3%	38.1%
	2017	2016	2015
Taxes, other than income			
Property and other	\$ 33	\$ 32	\$ 28
Total	\$ 33	\$ 32	\$ 28

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	\$ 13	\$ 79
Contributions in aid of construction	6	11
Regulatory liabilities	16	26
Deferred investment tax credits	24	37
Income taxes due to customers (b)	163	—
Other	9	11
Total deferred tax assets	231	164
Deferred Tax Liabilities		
Plant - net (b)	882	1,280
Regulatory assets	21	37
Accrued pension costs	17	12
Other	2	5
Total deferred tax liabilities	922	1,334
Net deferred tax liability	\$ 691	\$ 1,170

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2017, KU had \$61 million of federal net operating loss carryforwards that expire in 2035 and \$6 million of federal credit carryforwards that expire from 2034 to 2037.

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Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	\$ —	\$ 31	\$ (21)
Current - State	7	5	1
Total Current Expense (Benefit)	7	36	(20)
Deferred - Federal	138	131	240
Deferred - State	16	19	19
Total Deferred Expense, excluding benefits of operating loss carryforwards	154	150	259
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	(21)	(97)
Total Tax Benefit of Operating Loss Carryforwards	—	(21)	(97)
Total income tax expense (a)	\$ 159	\$ 163	\$ 140
Total income tax expense - Federal	\$ 136	\$ 139	\$ 120
Total income tax expense - State	23	24	20
Total income tax expense (a)	\$ 159	\$ 163	\$ 140

(a) Excludes deferred federal and state tax expense (benefit) recorded to OCI of less than \$1 million in 2017, and less than \$(1) million in 2016 and 2015.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 146	\$ 150	\$ 131
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	15	16	13
Amortization of investment tax credit	(2)	(2)	(2)
Other	—	(1)	(2)
Total increase	13	13	9
Total income tax expense	\$ 159	\$ 163	\$ 140
Effective income tax rate	38.0%	38.1%	37.4%

	2017	2016	2015
Taxes, other than income			
Property and other	\$ 32	\$ 30	\$ 29
Total	\$ 32	\$ 30	\$ 29

Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2017, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2013 and prior				
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2012 and prior		2012 and prior	2012 and prior	2012 and prior
U.K. (foreign)	2014 and prior				

Other (PPL)

In 2015, PPL recorded a tax benefit of \$24 million, related to the settlement of the IRS audit for tax years 1998-2011. Of this amount, \$12 million is reflected in continuing operations. PPL finalized the settlement of interest in 2016 and recorded an additional \$3 million tax benefit.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

(PPL)

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of power purchases. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the leveled fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates. Therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except regulatory assets recorded for AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

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(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31.:

	PPL		PPL Electric	
	2017	2016	2017	2016
Current Regulatory Assets:				
Environmental cost recovery	\$ 5	\$ 6	\$ —	\$ —
Generation formula rate	6	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	4	3	—	—
Smart meter rider	15	6	15	6
Storm costs	—	5	—	5
Other	4	1	1	1
Total current regulatory assets (a)	\$ 34	\$ 39	\$ 16	\$ 19

Noncurrent Regulatory Assets:

Defined benefit plans	\$ 880	\$ 947	\$ 504	\$ 549
Taxes recoverable through future rates	3	340	3	340
Storm costs	33	57	—	9
Unamortized loss on debt	54	61	29	36
Interest rate swaps	26	31	—	—
Terminated interest rate swaps	92	98	—	—
Accumulated cost of removal of utility plant	173	159	173	159
AROs	234	211	—	—
Other	9	14	—	1
Total noncurrent regulatory assets	\$ 1,504	\$ 1,918	\$ 709	\$ 1,094

Current Regulatory Liabilities:

Generation supply charge	\$ 34	\$ 23	\$ 34	\$ 23
Transmission service charge	9	—	9	—
Universal service rider	26	14	26	14
Transmission formula rate	9	15	9	15
Fuel adjustment clauses	3	11	—	—
Act 129 compliance rider	—	17	—	17
Storm damage expense rider	8	13	8	13
Other	6	8	—	1
Total current regulatory liabilities	\$ 95	\$ 101	\$ 86	\$ 83

Noncurrent Regulatory Liabilities:

Accumulated cost of removal of utility plant	\$ 677	\$ 700	\$ —	\$ —
Power purchase agreement - OVEC (b)	68	75	—	—
Net deferred taxes (c)	1,853	23	668	—
Defined benefit plans	27	23	—	—
Terminated interest rate swaps	74	78	—	—
Other	5	—	—	—
Total noncurrent regulatory liabilities	\$ 2,704	\$ 899	\$ 668	\$ —

	LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016
Current Regulatory Assets:						
Environmental cost recovery	\$ 5	\$ 6	\$ 5	\$ 6	\$ —	\$ —
Generation formula rate	6	11	—	—	6	11
Gas supply clause	4	3	4	3	—	—
Other	3	—	3	—	—	—
Total current regulatory assets	\$ 18	\$ 20	\$ 12	\$ 9	\$ 6	\$ 11

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	LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 376	\$ 398	\$ 234	\$ 246	\$ 142	\$ 152
Storm costs	33	48	18	26	15	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	26	31	26	31	—	—
Terminated interest rate swaps	92	98	54	57	38	41
AROs	234	211	61	70	173	141
Other	9	13	2	4	7	9
Total noncurrent regulatory assets	\$ 795	\$ 824	\$ 411	\$ 450	\$ 384	\$ 374
Current Regulatory Liabilities:						
Demand side management	\$ —	\$ 3	\$ —	\$ 2	\$ —	\$ 1
Fuel adjustment clause	3	11	—	2	3	9
Gas line tracker	3	—	3	—	—	—
Other	3	4	—	1	3	3
Total current regulatory liabilities	\$ 9	\$ 18	\$ 3	\$ 5	\$ 6	\$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 677	\$ 700	\$ 282	\$ 305	\$ 395	\$ 395
Power purchase agreement - OVEC (b)	68	75	47	52	21	23
Net deferred taxes (c)	1,185	23	552	23	633	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	5	—	1	—	4	—
Total noncurrent regulatory liabilities	\$ 2,036	\$ 899	\$ 919	\$ 419	\$ 1,117	\$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

(c) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which lowered the federal corporate income tax rate effective January 1, 2018 requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured. Of the regulatory asset and liability balances recorded, costs of \$68 million for PPL, \$30 million for PPL Electric, \$38 million for LKE, \$26 million for LG&E and \$12 million for KU, are expected to be amortized into net periodic defined benefit costs in 2018 in accordance with PPL's, PPL Electric's, LKE's, LG&E's and KU's pension accounting policy.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2017, the balances were \$33 million for PPL and LKE, \$18 million for LG&E and \$15 million for KU. As of December 31, 2016, the balances were \$20 million for PPL and LKE, \$11 million for LG&E and \$9 million for KU. Of the costs expected to be amortized into net periodic defined benefit costs in 2018, \$16 million for PPL and LKE, \$10 million for LG&E and \$6 million for KU, are expected to be recorded as a regulatory asset in 2018.

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(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's, LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2020.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for PPL, LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

Regulatory Liability Associated with Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits. At December 31, 2017, excess deferred taxes recorded as a result of the TCJA were \$2.2 billion at PPL, \$1.0 billion at PPL Electric, \$1.2 billion at LKE, \$532 million at LG&E and \$634 million at KU, which include the gross-up associated with the excess deferred taxes.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's

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Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at \$15 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than \$15 million recovered annually through base rates. Beginning January 1, 2018, the amortized 2011 storm expense of \$5 million will be included in the base rate component of the SDER.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allowed PPL Electric to recover the maximum \$250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allowed PPL Electric to recover the maximum \$185 million cost of the program over the three year period June 1, 2013 through May 31, 2016. Phase III of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum \$313 million over the next five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The Phase II program costs were reconciled at the end of the program and any remaining over- or under-recovery was rolled into Phase III. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Smart Meter Rider (SMR)

Act 129, which became effective November 14, 2008, requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). PPL Electric filed its initial SMP in 2009. However, in 2010, the PUC found that PPL Electric's "Advanced Metering Infrastructure" (AMI) system did not fully meet the standards of Act 129. In 2014, PPL Electric filed its current SMP, which was approved by the PUC in 2015. Under its SMP, PPL Electric will replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. PPL Electric uses a mechanism known as the Smart Meter Rider (SMR) to recover the costs to implement its SMP on a full and current basis. The SMR is a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

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(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2017, the KPSC issued orders continuing the use of an authorized return on equity of 9.7% for all existing approved ECR plans and projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs, intended to reduce peak demand and delay investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision, which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs and incentives, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management and demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

A net cash settlement of \$9 million was paid on a swap that was terminated by LG&E in December 2016. The KPSC authorized the recording of a regulatory asset and the recovery of such costs. As part of the Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017, the KPSC authorized LG&E to recover the swap termination payment through amortization of the regulatory asset using a straight-line method over 17 years. The amortization of the regulatory asset is recognized in "Interest Expense" on the Statements of Income.

Plant Outage Costs

The Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017 provided for the normalization of expenses associated with plant outages using an eight-year average. The eight-year average is comprised of four historical years' and four forecasted years' expenses. Plant outage expenses that are greater or less than the eight-year average will be collected from or returned to customers, through future base rates. These amounts are included in other current regulatory assets or other current regulatory liabilities above.

(PPL, LKE and LG&E)

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, the KPSC approved additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. Effective July 1, 2017, LG&E is authorized to earn a 9.7% return on equity for the GLT mechanism. As part of the 2016 rate case, LG&E now annually files a combined application which includes revised rates based on projected costs and a balancing adjustment calculation with rates effective on the first billing cycle in May. After the completion of a plan year, the balancing adjustment, as part of the combined application filing to the KPSC, amends rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

(PPL, LKE and KU)

Generation Formula Rates

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect in July of each year utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset represents the difference between the revenue requirement in effect for the preceding year and actual expenditures incurred for the current year.

Regulatory Matters

(PPL)

U.K. Activities

RIIO-ED1

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs.

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of \$59 million, LG&E base gas rates of \$8 million and KU base electricity rates of \$55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of \$57 million, LG&E base gas rates of \$7 million, KU base electricity rates of \$52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval for implementing Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment will also result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

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On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues, \$69 million in LG&E electricity revenues and \$17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

LG&E and KU cannot predict the outcome of these proceedings.

(LKE and LG&E)

Gas Franchise

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a five-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee shall revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. In September 2017, oral arguments were heard by the KPSC and a final order is expected in 2018. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

(PPL and PPL Electric)

Pennsylvania Activities

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In June 2016, the PUC approved PPL Electric's Phase III

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Plan, allowing PPL Electric to implement its energy efficiency and demand response programs and recover, through the Act 129 compliance rider, the \$313 million cost of the programs over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. PPL Electric is a DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

TCJA Impact on PPL Electric Rates (PPL and PPL Electric)

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

Federal Matters

FERC Formula Rate

In April 2017, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement. The filing establishes the revenue requirement used to set rates that took effect in June 2017. The time period for any challenges to PPL Electric's annual update has expired. No formal challenges were submitted.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2017, 2016 and 2015, PPL Electric purchased \$1.3 billion, \$1.4 billion and \$1.3 billion of accounts receivable from unaffiliated third parties. During 2015, PPL Electric purchased \$146 million of accounts receivable from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for 2015 included purchases through May 31, 2015, which is the period during which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from unaffiliated third parties.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets except for

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borrowings under LG&E's Term Loan Facility which are recorded as "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

	December 31, 2017					December 31, 2016		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a) (c)	Jan. 2022	£ 210	£ 148	£ —	£ 60	£ 160	£ —	
WPD (South West)								
Syndicated Credit Facility (a) (c)	July 2021	245	—	—	245	110	—	
WPD (East Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	180	—	120	9	—	
WPD (West Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	120	—	180	—	—	
Uncommitted Credit Facilities		100	—	4	96	60	4	
Total U.K. Credit Facilities (b)		£ 1,155	£ 448	£ 4	£ 701	£ 339	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility (c) (d)	Jan. 2022	\$ 950	\$ —	\$ 230	\$ 720	\$ —	\$ 20	
Syndicated Credit Facility (c) (d)	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility (c) (d)	Mar. 2018	150	—	18	132	—	17	
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$ —	\$ 248	\$ 1,152	\$ —	\$ 37	
PPL Electric								
Syndicated Credit Facility (c) (d)	Jan. 2022	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 296	
LKE								
Syndicated Credit Facility (c) (d)	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility (c) (d)	Jan. 2022	\$ 500	\$ —	\$ 199	\$ 301	\$ —	\$ 169	
Term Loan Credit Facility (c) (e)	Oct. 2019	200	100	—	100	—	—	
Total LG&E Credit Facilities		\$ 700	\$ 100	\$ 199	\$ 401	\$ —	\$ 169	
KU								
Syndicated Credit Facility (c) (d)	Jan. 2022	\$ 400	\$ —	\$ 45	\$ 355	\$ —	\$ 16	
Letter of Credit Facility (c) (d) (f)	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 243	\$ 355	\$ —	\$ 214	

- (a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (b) The WPD plc amounts borrowed at December 31, 2017 and 2016 included USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.17% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed. The WPD (East Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to \$244 million and bore interest at 0.89%. The WPD (West Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to \$162 million and bore interest at 0.89%. At December 31, 2017, the unused capacity under the U.K. credit facilities was approximately \$949 million.
- (c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facilities expiring in November 2018 and March 2018 be increased by up to \$30 million, LG&E and KU each may request up to a \$100 million increase in its facility's capacity and LKE may request up to a \$25 million increase in its facility's capacity.
- (e) LG&E entered into a term loan credit agreement in October 2017 whereby it may borrow up to \$200 million. The outstanding borrowings at December 31, 2017 bore interest at a rate of 2.06%.
- (f) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

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In January 2018, LG&E borrowed the remaining \$100 million available under its \$200 million term loan facility. The proceeds were used to repay short-term debt and for general corporate purposes.

In January 2018, the expiration dates for the PPL Capital Funding, PPL Electric, LG&E and KU syndicated credit facilities expiring in January 2022 were extended to January 2023.

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	December 31, 2017				December 31, 2016	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.64%	\$ 1,000	\$ 230	\$ 770	1.10%	\$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.83%	350	199	151	0.94%	169
KU	1.97%	350	45	305	0.87%	16
Total		\$ 2,350	\$ 474	\$ 1,876		\$ 500

(PPL Electric, LKE, LG&E and KU)

See Note 14 for discussion of intercompany borrowings.

Long-term Debt (All Registrants)

	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2017	2016
PPL				
U.S.				
Senior Unsecured Notes	3.78%	2020 - 2047	\$ 4,575	\$ 4,075
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.96%	2018 - 2047	7,314	6,849
Junior Subordinated Notes	5.10%	2067 - 2073	930	930
Term Loan Credit Facility	2.06%	2019	100	—
Total U.S. Long-term Debt			12,919	11,854
U.K.				
Senior Unsecured Notes (d)	5.24%	2020 - 2040	6,351	5,707
Index-linked Senior Unsecured Notes (e)	1.56%	2026 - 2056	1,012	838
Total U.K. Long-term Debt (f)			7,363	6,545
Total Long-term Debt Before Adjustments			20,282	18,399
Fair market value adjustments			21	22
Unamortized premium and (discount), net (e)			14	20
Unamortized debt issuance costs			(122)	(115)
Total Long-term Debt			20,195	18,326
Less current portion of Long-term Debt			348	518
Total Long-term Debt, noncurrent			\$ 19,847	\$ 17,808

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	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2017	2016
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.23%	2020 - 2047	\$ 3,339	\$ 2,864
Total Long-term Debt Before Adjustments			3,339	2,864
Unamortized discount			(16)	(12)
Unamortized debt issuance costs			(25)	(21)
Total Long-term Debt			3,298	2,831
Less current portion of Long-term Debt			—	224
Total Long-term Debt, noncurrent			\$ 3,298	\$ 2,607
LKE				
Senior Unsecured Notes	3.97%	2020 - 2021	\$ 725	\$ 725
Term Loan Credit Facility	2.06%	2019	100	—
First Mortgage Bonds (a) (c)	3.73%	2018 - 2045	3,975	3,985
Long-term debt to affiliate	3.50%	2026	400	400
Total Long-term Debt Before Adjustments			5,200	5,110
Fair market value adjustments			—	(1)
Unamortized discount			(14)	(15)
Unamortized debt issuance costs			(27)	(29)
Total Long-term Debt			5,159	5,065
Less current portion of Long-term Debt			98	194
Total Long-term Debt, noncurrent			\$ 5,061	\$ 4,871
LG&E				
Term Loan Credit Facility	2.06%	2019	\$ 100	\$ —
First Mortgage Bonds (a) (c)	3.48%	2018 - 2045	1,624	1,634
Total Long-term Debt Before Adjustments			1,724	1,634
Fair market value adjustments			—	(1)
Unamortized discount			(4)	(4)
Unamortized debt issuance costs			(11)	(12)
Total Long-term Debt			1,709	1,617
Less current portion of Long-term Debt			98	194
Total Long-term Debt, noncurrent			\$ 1,611	\$ 1,423
KU				
First Mortgage Bonds (a) (c)	3.91%	2019 - 2045	\$ 2,351	\$ 2,351
Total Long-term Debt Before Adjustments			2,351	2,351
Unamortized discount			(9)	(9)
Unamortized debt issuance costs			(14)	(15)
Total Long-term Debt			2,328	2,327
Less current portion of Long-term Debt			—	—
Total Long-term Debt, noncurrent			\$ 2,328	\$ 2,327

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$8.5 billion and \$7.6 billion at December 31, 2017 and 2016.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection

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with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$4.7 billion and \$4.4 billion at December 31, 2017 and 2016.

- Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$6.0 billion and \$5.8 billion at December 31, 2017 and 2016.
- (b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes \$224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
 - (c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2017, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$514 million for LKE, comprised of \$391 million and \$123 million for LG&E and KU. At December 31, 2017, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$375 million for LKE, comprised of \$147 million and \$228 million for LG&E and KU. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (d) Includes £225 million (\$304 million at December 31, 2017) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (e) The principal amount of the notes issued by WPD (South West), WPD (East Midlands) and WPD (South Wales) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2016 to 2017 was an increase of approximately £27 million (\$37 million) resulting from inflation. In addition, this amount includes £225 million (\$304 million at December 31, 2017) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (f) Includes £4.7 billion (\$6.4 billion at December 31, 2017) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.
- (g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2017.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2018 through 2022 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2018	\$ 348	\$ —	\$ 98	\$ 98	\$ —
2019	430	—	430	334	96
2020	1,278	100	975	—	500
2021	1,150	400	250	—	—
2022	1,274	474	—	—	—
Thereafter	15,802	2,365	3,447	1,292	1,755
Total	\$ 20,282	\$ 3,339	\$ 5,200	\$ 1,724	\$ 2,351

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In September 2017, PPL Capital Funding issued \$500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of \$490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and for general corporate purposes.

In November 2017, WPD (South West) issued £250 million of 2.375% Senior Notes due 2029. WPD (South West) received proceeds of £247 million, which equated to \$326 million at the time of issuance, net of fees and a discount. The proceeds were used for general corporate purposes, including the re-financing of existing debt.

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In December 2017, WPD repaid the entire \$100 million principal amount of its 7.25% Senior Notes upon maturity.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

In August 2017, the LCIDA remarketed \$108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed \$116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In October 2017, LG&E entered into a \$200 million term loan credit facility with a term expiring in October 2019. As of December 31, 2017, LG&E had outstanding borrowings of \$100 million under this agreement at a rate of 2.06%. In January 2018, LG&E borrowed the remaining \$100 million available under this facility.

In November 2017, LG&E redeemed, at par, its \$10 million Louisville/Jefferson County Metro Government Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2027.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of

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their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. The compensation paid to the selling agents by PPL may be up to 1% of the gross offering proceeds of the shares sold with respect to each equity distribution agreement. PPL issued the following for the years ended December 31:

	2017	2016	2015
Number of shares (in thousands)	10,373	710	1,477
Net Proceeds	\$ 377	\$ 25	\$ 49

Distributions and Related Restrictions

In November 2017, PPL declared its quarterly common stock dividend, payable January 2, 2018, at 39.5 cents per share (equivalent to \$1.58 per annum). On February 22, 2018, PPL announced that the company is increasing its common stock dividend to 41.0 cents per share on a quarterly basis (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2017, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2017, net assets of \$2.7 billion (\$1.1 billion for LG&E and \$1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$3.1 billion (\$1.4 billion for LG&E and \$1.7 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results.

(PPL)

Discontinued Operations

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. The transaction was subject to customary closing conditions, including receipt of regulatory approvals from the NRC, FERC, DOJ and PUC, all of which were received by mid-April 2015. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

Loss on Spinoff

In June 2015, in conjunction with the accounting for the spinoff, PPL evaluated whether the fair value of the Supply segment's net assets was less than the carrying value as of the June 1, 2015 spinoff date.

PPL considered several valuation methodologies to derive a fair value estimate of its Supply segment at the spinoff date. These methodologies included considering the closing "when-issued" Talen Energy market value on June 1, 2015 (the spinoff date), adjusted for the proportional share of the equity value attributable to the Supply segment, as well as, the valuation methods consistently used in PPL's quantitative goodwill impairment assessments - an income approach using a discounted cash flow analysis of the Supply segment and an alternative market approach considering market multiples of comparable companies.

Although the Talen Energy market value approach utilized the most observable inputs of the three approaches, PPL considered certain limitations of the "when-issued" trading market for the spinoff transaction including the short trading duration, lack of liquidity in the market and anticipated initial Talen Energy stock ownership base selling pressure, among other factors, and concluded that these factors limited this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

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<u>Approach</u>	<u>Weighting</u>	<u>Weighted Fair Value (in billions)</u>
Talen Energy Market Value	50%	\$ 1.4
Income/Discounted Cash Flow	30%	1.1
Alternative Market (Comparable Company)	20%	0.7
Estimated Fair Value		<u>\$ 3.2</u>

A key assumption included in the fair value estimate is the application of a control premium of 25% in the two market approaches. PPL concluded it was appropriate to apply a control premium in these approaches as the goodwill impairment testing guidance was followed in determining the estimated fair value of the Supply segment, which had historically been a reporting unit for PPL. This guidance provides that the market price of an individual security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit. This guidance also indicates that substantial value may arise to a controlling shareholder from the ability to take advantage of synergies and other benefits that arise from control over another entity, and that the market price of a company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

In determining the control premium, PPL reviewed premiums received during the prior five years in market sales transactions obtained from observable independent power producer and hybrid utility transactions greater than \$1 billion. Premiums for these transactions ranged from 5% to 42% with a median of approximately 25%. Given these metrics, PPL concluded a control premium of 25% to be reasonable for both of the market valuation approaches used.

Assumptions used in the discounted cash flow analysis included forward energy prices, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the Energy Supply portion of the Talen Energy business planning process at that time and a market participant discount rate.

Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (classified as Level 3) was below its carrying value of \$4.1 billion and recorded a loss on the spinoff of \$879 million in the second quarter of 2015, which is reflected in discontinued operations and is nondeductible for tax purposes. This amount served to reduce the basis of the net assets accounted for as a dividend at the June 1, 2015 spinoff date.

Costs of Spinoff

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed and estimated charges for employee separation benefits were recorded in 2014. In 2015, the organizational structures were finalized for both PPL and Talen Energy, which resulted in an additional charge of \$10 million for employee separation benefits. Of this amount, \$2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining \$8 million is reflected in "Other operation and maintenance" on the 2015 PPL Consolidated Statement of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services.

Additional employee-related costs incurred primarily included accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized \$24 million of these costs at the spinoff closing date in 2015, which are reflected in discontinued operations.

PPL recorded \$45 million of third-party costs related to this transaction in 2015. Of these costs, \$32 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional \$13 million of consulting and other costs were incurred in 2015, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the 2015 Statement of Income.

At the close of the transaction in 2015, \$72 million (\$42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into earnings and reflected in discontinued operations.

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Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminated on May 31, 2017. The TSA set forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL provided Talen Energy certain information technology, financial and accounting, human resource and other specified services. PPL billed Talen Energy \$1 million, \$35 million and \$25 million for these services in 2017, 2016 and 2015. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff transaction. PPL Electric's supply contracts with Talen Energy Marketing extended through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were \$106 million and \$27 million for 2016 and 2015. There were no energy purchases from Talen Energy Marketing in 2017. These energy purchases are no longer considered affiliate transactions.

(PPL)

Summarized Results of Discontinued Operations

The operations of the Supply segment are included in "Loss from Discontinued Operations (net of income taxes)" on the Statement of Income. Following are the components of Discontinued Operations in the Statement of Income for the period ended December 31:

	2015
Operating revenues	\$ 1,427
Operating expenses	1,328
Other Income (Expense) - net	(21)
Interest expense (a)	150
Income tax expense (benefit)	(30)
Loss on spinoff	(879)
Loss from Discontinued Operations (net of income taxes)	<u>\$ (921)</u>

(a) Includes interest associated with the Supply segment with no additional allocation as the Supply segment was sufficiently capitalized.

Net assets, after recognition of the loss on the spinoff, of \$3.2 billion were distributed to PPL shareowners in the June 1, 2015, spinoff of PPL Energy Supply.

Development

Regional Transmission Line Expansion Plan *(PPL and PPL Electric)*

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile, 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress costs but denied the requested incentive for a 100 basis point adder to the return on equity.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a final order approving the application. The line was energized in April 2016, completing the approximately \$350 million project, which includes additional substation security enhancements. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

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Capacity Needs (PPL, LKE, LG&E and KU)

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired electricity generating units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

The Cane Run Unit 7 NGCC was put into commercial operation in June 2015. As a result and to meet more stringent EPA regulations, LG&E retired one coal-fired generating unit at the Cane Run plant in March 2015 and retired the remaining two coal-fired generating units at the plant in June 2015. KU retired the two remaining coal-fired generating units at the Green River plant in September 2015. LG&E and KU incurred costs of \$11 million and \$6 million directly related to these retirements including inventory write-downs and separation benefits. There were no gains or losses on the retirement of these units.

In December 2014, a final order was issued by the KPSC approving the request to construct a solar generation facility at the E.W. Brown facility. LG&E and KU completed construction activities and placed a 10 MW facility into commercial operation in June 2016 at a cost of \$25 million.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

	2017	2016	2015
PPL	\$ 45	\$ 50	\$ 49
LKE	26	26	24
LG&E	15	15	12
KU	11	11	11

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2018	\$ 32	\$ 26	\$ 15	\$ 10
2019	19	16	8	8
2020	13	11	5	6
2021	10	8	3	5
2022	8	6	2	4
Thereafter	22	15	6	8
Total	\$ 104	\$ 82	\$ 39	\$ 41

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

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Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
SIP	15,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock Units

Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

Under the SIP, each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock units granted was:

	2017	2016	2015
PPL	\$ 35.30	\$ 33.84	\$ 34.50
PPL Electric	35.45	34.32	34.41
LKE	35.25	33.73	34.89

Restricted stock unit activity for 2017 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,337,025	\$ 31.57
Granted	538,441	35.30
Vested	(567,001)	29.28
Forfeited	(16,816)	34.28
Nonvested, end of period (a)	1,291,649	34.10

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	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
PPL Electric		
Nonvested, beginning of period	204,570	\$ 31.27
Transfer between registrants	(5,250)	32.05
Granted	79,321	35.45
Vested	(91,117)	28.83
Forfeited	(3,108)	34.68
Nonvested, end of period	<u>184,416</u>	34.20
LKE		
Nonvested, beginning of period	243,281	\$ 31.53
Transfer between registrants	25,337	31.61
Granted	97,775	35.25
Vested	(125,612)	29.68
Forfeited	(9,224)	34.04
Nonvested, end of period	<u>231,557</u>	34.01

(a) Excludes 252,850 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock unit awards are expected to vest.

The total fair value of restricted stock units vesting for the years ended December 31 was:

	2017	2016	2015
PPL	\$ 20	\$ 30	\$ 28
PPL Electric	3	3	4
LKE	4	5	4

Performance Units - Total Shareowner Return

Performance units based on Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment except for retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a

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U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2017	2016	2015
Expected stock volatility	17.40%	19.60%	15.90%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of TSR performance units granted was:

	2017	2016	2015
PPL	\$ 38.38	\$ 35.74	\$ 36.76
PPL Electric	38.37	35.68	37.93
LKE	38.24	35.28	37.10

TSR performance unit activity for 2017 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
<u>PPL</u>		
Nonvested, beginning of period	1,070,536	\$ 34.65
Granted	293,642	38.38
Vested	(243,983)	32.42
Forfeited	(141,964)	32.27
Nonvested, end of period (a)	<u>978,231</u>	36.67
<u>PPL Electric</u>		
Nonvested, beginning of period	76,726	\$ 34.68
Granted	26,086	38.37
Vested	(14,713)	32.14
Forfeited	(12,586)	35.45
Nonvested, end of period	<u>75,513</u>	37.00
<u>LKE</u>		
Nonvested, beginning of period	191,601	\$ 34.34
Transfer between registrants	8,307	35.96
Granted	64,555	38.24
Vested	(48,980)	32.09
Forfeited	(35,194)	35.25
Nonvested, end of period	<u>180,289</u>	36.69

(a) Excludes 41,405 TSR awards for which the service vesting requirement was waived for former PPL Energy Supply employees as a result of the spinoff, but for which the ultimate number of shares to be distributed will depend on the actual attainment of the performance goals at the end of the specified performance periods.

The total fair value of TSR performance units vesting for the year ended December 31, 2017, 2016 and 2015 was \$8 million, \$12 million and \$6 million for PPL and insignificant for PPL Electric and LKE.

Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

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Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

ROE performance unit activity for 2017 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
PPL		
Granted	97,925	\$ 34.42
Forfeited	(997)	34.41
Nonvested, end of period	<u>96,928</u>	34.42
PPL Electric		
Granted	8,696	\$ 34.41
Nonvested, end of period	<u>8,696</u>	34.41
LKE		
Granted	21,536	\$ 34.29
Forfeited	(997)	34.41
Nonvested, end of period	<u>20,539</u>	34.29

Stock Options

PPL's CGNC eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2017, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2017 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	4,481,160	\$ 28.98		
Exercised	(718,977)	26.67		
Outstanding and exercisable at end of period	<u>3,762,183</u>	29.42	3.5	\$ 14
PPL Electric				
Outstanding at beginning of period	240,939	\$ 27.48		
Exercised	(42,659)	26.99		
Outstanding and exercisable at end of period	<u>198,280</u>	27.58	3.8	\$ 1

	Number of Options	Weighted Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
LKE				
Outstanding at beginning of period	61,896	\$ 25.81		
Exercised	(28,164)	26.59		
Outstanding and exercisable at end of period	33,732	25.15	4.1	\$ —

For 2017, 2016 and 2015, PPL received \$19 million, \$52 million and \$97 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2017, 2016 and 2015 were \$8 million, \$18 million and \$21 million.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2017	2016	2015
PPL	\$ 32	\$ 27	\$ 33
PPL Electric	18	16	14
LKE	8	7	8

See Note 8 for details of the costs recognized in discontinued operations related to the accelerated vesting of awards for former PPL Energy Supply employees.

The income tax benefit related to above compensation expense was as follows:

	2017	2016	2015
PPL	\$ 13	\$ 12	\$ 14
PPL Electric	8	7	6
LKE	3	3	3

At December 31, 2017, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted- Average Period for Recognition
PPL	\$ 10	1.7
PPL Electric	2	1.7
LKE	1	1.6

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of the employees of PPL's domestic subsidiaries are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

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The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Net periodic defined benefit costs (credits):									
Service cost	\$ 65	\$ 66	\$ 96	\$ 76	\$ 69	\$ 79	\$ 7	\$ 7	\$ 11
Interest cost	168	174	194	178	235	314	23	26	26
Expected return on plan assets	(231)	(228)	(258)	(514)	(504)	(523)	(22)	(22)	(26)
Amortization of:									
Prior service cost (credit)	10	8	7	—	—	—	(1)	—	1
Actuarial (gain) loss	69	50	84	144	138	158	1	1	—
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	81	70	123	(116)	(62)	28	8	12	12
Settlements	1	3	—	—	—	—	—	—	—
Termination benefits	1	—	—	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	<u>\$ 83</u>	<u>\$ 73</u>	<u>\$ 123</u>	<u>\$ (116)</u>	<u>\$ (62)</u>	<u>\$ 28</u>	<u>\$ 8</u>	<u>\$ 12</u>	<u>\$ 12</u>

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	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Divestiture (a)	\$ —	\$ —	\$ (353)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (6)
Settlement	(1)	(3)	—	—	—	—	—	—	—
Net (gain) loss	27	253	63	346	7	508	(28)	9	(9)
Prior service cost (credit)	(1)	15	18	—	—	—	8	—	—
Amortization of:									
Prior service (cost) credit	(10)	(8)	(7)	—	—	—	1	(1)	(1)
Actuarial gain (loss)	(69)	(50)	(85)	(144)	(138)	(158)	(1)	(1)	—
Total recognized in OCI and regulatory assets/liabilities (b)	(54)	207	(364)	202	(131)	350	(20)	7	(16)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	\$ 29	\$ 280	\$ (241)	\$ 86	\$ (193)	\$ 378	\$ (12)	\$ 19	\$ (4)

(a) As a result of the spinoff of PPL Energy Supply, amounts in AOCI were allocated to certain former active and inactive employees of PPL Energy Supply and included in the distribution. See Note 8 for additional details.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
OCI	\$ (53)	\$ 236	\$ (269)	\$ (25)	\$ 7	\$ 12
Regulatory assets/liabilities	(1)	(29)	(95)	5	—	(28)
Total recognized in OCI and regulatory assets/liabilities	\$ (54)	\$ 207	\$ (364)	\$ (20)	\$ 7	\$ (16)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2018 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	\$ 10	\$ —
Actuarial (gain) loss	86	152
Total	\$ 96	\$ 152
Amortization from Balance Sheet:		
AOCI	\$ 28	\$ 152
Regulatory assets/liabilities	68	—
Total	\$ 96	\$ 152

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(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Net periodic defined benefit costs (credits):						
Service cost	\$ 24	\$ 23	\$ 26	\$ 4	\$ 5	\$ 5
Interest cost	68	71	68	9	9	9
Expected return on plan assets	(92)	(91)	(88)	(7)	(6)	(6)
Amortization of:						
Prior service cost	8	8	7	1	3	3
Actuarial (gain) loss (a)	31	21	37	—	(1)	—
Net periodic defined benefit costs (b)	\$ 39	\$ 32	\$ 50	\$ 7	\$ 10	\$ 11

Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:

Net (gain) loss	\$ 30	\$ 119	\$ 20	\$ (14)	\$ 6	\$ (15)
Prior service cost	7	—	19	8	—	—
Amortization of:						
Prior service credit	(8)	(8)	(7)	(1)	(3)	(3)
Actuarial gain (loss)	(32)	(21)	(37)	—	1	—
Total recognized in OCI and regulatory assets/liabilities	(3)	90	(5)	(7)	4	(18)

Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	\$ 36	\$ 122	\$ 45	\$ —	\$ 14	\$ (7)
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- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$11 million in 2017, \$6 million in 2016 and \$9 million in 2015.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
OCI	\$ 33	\$ 42	\$ 4	\$ (2)	\$ 2	\$ (2)
Regulatory assets/liabilities	(36)	48	(9)	(5)	2	(16)
Total recognized in OCI and regulatory assets/liabilities	\$ (3)	\$ 90	\$ (5)	\$ (7)	\$ 4	\$ (18)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2018 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	\$ 9	\$ 1
Actuarial Loss	39	—
Total	\$ 48	\$ 1
Amortization from Balance Sheet:		
AOCI	\$ 11	\$ —
Regulatory assets/liabilities	37	1
Total	\$ 48	\$ 1

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(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2017	2016	2015
Net periodic defined benefit costs (credits):			
Service cost	\$ 1	\$ 1	\$ 1
Interest cost	13	15	14
Expected return on plan assets	(22)	(21)	(20)
Amortization of:			
Prior service cost	5	4	3
Actuarial loss (a)	9	7	11
Net periodic defined benefit costs (b)	<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 9</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net (gain) loss	\$ (9)	\$ 22	\$ 8
Prior service cost	7	—	10
Amortization of:			
Prior service credit	(5)	(4)	(3)
Actuarial gain	(9)	(7)	(11)
Total recognized in regulatory assets/liabilities	<u>(16)</u>	<u>11</u>	<u>4</u>
Total recognized in net periodic defined benefit costs and regulatory assets	<u>\$ (10)</u>	<u>\$ 17</u>	<u>\$ 13</u>

- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$7 million in 2017, \$5 million in 2016 and \$3 million in 2015.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2018 are as follows.

	Pension Benefits
Prior service cost	\$ 5
Actuarial loss	9
Total	<u>\$ 14</u>

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2017	2016	2015
	2017	2016	2015	2017	2016	2015			
PPL	\$ 59	\$ 53	\$ 71	\$ (151)	\$ (95)	\$ (21)	\$ 5	\$ 7	\$ 8
PPL Electric (a)	12	10	15				—	1	—
LKE (b)	28	24	37				5	6	8
LG&E (b)	8	8	12				3	3	4
KU (a) (b)	4	5	9				1	2	2

- (a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS.

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(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts, \$4 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2017, \$3 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2016 and \$4 million for LG&E and \$1 million for KU were recorded as regulatory assets in 2015.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
LG&E Non-Union Only	\$ 5	\$ 4	\$ 5	\$ 3	\$ 3	\$ 4

(PPL, LKE and LG&E)

PPL, LKE and LG&E adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables with collar and factor adjustments, where applicable) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, in 2014, PPL, LKE and LG&E updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. In 2017, PPL, LKE and LG&E updated to the MP-2017 mortality improvement scale from 2006 on a generational basis. This new mortality assumption reflects the expectation of lower ongoing improvements in life expectancies.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2017	2016
	2017	2016	2017	2016		
PPL						
Discount rate	3.70%	4.21%	2.65%	2.87%	3.64%	4.11%
Rate of compensation increase	3.78%	3.95%	3.50%	3.50%	3.75%	3.92%
LKE						
Discount rate	3.69%	4.19%			3.65%	4.12%
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%
LG&E						
Discount rate	3.65%	4.13%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2017	2016	2015
	2017	2016	2015	2017	2016	2015			
PPL									
Discount rate service cost (b)	4.21%	4.59%	4.25%	2.99%	3.90%	3.85%	4.11%	4.48%	4.09%
Discount rate interest cost (b)	4.21%	4.59%	4.25%	2.41%	3.14%	3.85%	4.11%	4.48%	4.09%
Rate of compensation increase	3.95%	3.93%	3.91%	3.50%	4.00%	4.00%	3.92%	3.91%	3.86%
Expected return on plan assets (a)	7.00%	7.00%	7.00%	7.22%	7.20%	7.19%	6.21%	6.11%	6.06%
LKE									
Discount rate	4.19%	4.56%	4.25%				4.12%	4.49%	4.06%
Rate of compensation increase	3.50%	3.50%	3.50%				3.50%	3.50%	3.50%
Expected return on plan assets (a)	7.00%	7.00%	7.00%				6.82%	6.82%	6.82%

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	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015

LG&E									
Discount rate	4.13%	4.49%	4.20%						
Expected return on plan assets (a)	7.00%	7.00%	7.00%						

- (a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.
- (b) As of January 1, 2016, WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 for additional details.

(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2017	2016	2015
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	6.6%	7.0%	6.8%
– cost	7.0%	6.8%	7.2%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0%	5.0%	5.0%
– cost	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate			
– obligations	2022	2022	2020
– cost	2022	2020	2020

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2017:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	\$ 4	\$ (4)
LKE	3	(3)

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(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2017	2016
	2017	2016	2017	2016		
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 4,079	\$ 3,863	\$ 7,383	\$ 8,404	\$ 591	\$ 596
Service cost	65	66	76	69	7	7
Interest cost	168	174	178	235	23	26
Participant contributions	—	—	13	14	14	14
Plan amendments	(1)	14	—	—	8	—
Actuarial (gain) loss	233	214	293	484	4	11
Settlements	(6)	(9)	(1)	—	—	—
Termination benefits	1	—	—	—	—	—
Gross benefits paid	(251)	(243)	(345)	(357)	(59)	(64)
Federal subsidy	—	—	—	—	1	1
Currency conversion	—	—	622	(1,466)	—	—
Benefit Obligation, end of period	4,288	4,079	8,219	7,383	589	591
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,243	3,227	7,211	7,625	378	379
Actual return on plan assets	437	189	480	979	54	25
Employer contributions	65	79	486	330	15	19
Participant contributions	—	—	13	14	13	14
Settlements	(6)	(9)	(1)	—	—	—
Gross benefits paid	(251)	(243)	(345)	(357)	(55)	(59)
Currency conversion	—	—	646	(1,380)	—	—
Plan assets at fair value, end of period	3,488	3,243	8,490	7,211	405	378
Funded Status, end of period	\$ (800)	\$ (836)	\$ 271	\$ (172)	\$ (184)	\$ (213)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	\$ —	\$ —	\$ 284	\$ 10	\$ 2	\$ 2
Current liability	(13)	(17)	—	—	(3)	(3)
Noncurrent liability	(787)	(819)	(13)	(182)	(183)	(212)
Net amount recognized, end of period	\$ (800)	\$ (836)	\$ 271	\$ (172)	\$ (184)	\$ (213)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	\$ 49	\$ 59	\$ —	\$ —	\$ 9	\$ —
Net actuarial (gain) loss	1,134	1,178	2,755	2,553	16	45
Total (a)	\$ 1,183	\$ 1,237	\$ 2,755	\$ 2,553	\$ 25	\$ 45
Total accumulated benefit obligation for defined benefit pension plans	\$ 4,000	\$ 3,807	\$ 7,542	\$ 6,780		

(a) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
AOCI	\$ 374	\$ 357	\$ 15	\$ 20
Regulatory assets/liabilities	809	880	10	25
Total	\$ 1,183	\$ 1,237	\$ 25	\$ 45

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The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2017	2016	2017	2016
Projected benefit obligation	\$ 4,288	\$ 4,079	\$ 3,083	\$ 3,403
Fair value of plan assets	3,488	3,243	3,070	3,221

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2017	2016	2017	2016
Accumulated benefit obligation	\$ 4,000	\$ 3,807	\$ 10	\$ 657
Fair value of plan assets	3,488	3,243	—	643

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 1,669	\$ 1,588	\$ 220	\$ 216
Service cost	24	23	4	5
Interest cost	68	71	9	9
Participant contributions	—	—	8	7
Plan amendments (a)	6	—	8	—
Actuarial (gain) loss	113	96	(7)	4
Gross benefits paid (a)	(109)	(109)	(19)	(21)
Benefit Obligation, end of period	1,771	1,669	223	220
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,315	1,289	98	88
Actual return on plan assets	175	69	14	4
Employer contributions	21	66	15	20
Participant contributions	—	—	8	7
Gross benefits paid	(109)	(109)	(19)	(21)
Plan assets at fair value, end of period	1,402	1,315	116	98
Funded Status, end of period	\$ (369)	\$ (354)	\$ (107)	\$ (122)

Amounts recognized in the Balance Sheets consist of:

Noncurrent asset	\$ —	\$ —	\$ 2	\$ 2
Current liability	(4)	(4)	(3)	(3)
Noncurrent liability	(365)	(350)	(106)	(121)
Net amount recognized, end of period	\$ (369)	\$ (354)	\$ (107)	\$ (122)

Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:

Prior service cost	\$ 44	\$ 45	\$ 13	\$ 6
Net actuarial (gain) loss	434	436	(26)	(13)
Total	\$ 478	\$ 481	\$ (13)	\$ (7)

Total accumulated benefit obligation for defined benefit pension plans	\$ 1,616	\$ 1,531		
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(a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected

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benefit obligation at December 31, 2016 increased by \$19 million as a result of the amendment. Gross benefits paid by the plans include lump-sum cash payments made to participants during 2017 and 2016 of \$50 million and \$53 million in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
AOCI	\$ 144	\$ 111	\$ 6	\$ 8
Regulatory assets/liabilities	334	370	(19)	(15)
Total	\$ 478	\$ 481	\$ (13)	\$ (7)

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2017	2016
Projected benefit obligation	\$ 1,771	\$ 1,669
Fair value of plan assets	1,402	1,315

	ABO in excess of plan assets	
	2017	2016
Accumulated benefit obligation	\$ 1,616	\$ 1,531
Fair value of plan assets	1,402	1,315

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2017	2016
Change in Benefit Obligation		
Benefit Obligation, beginning of period	\$ 329	\$ 326
Service cost	1	1
Interest cost	13	15
Plan amendments (a)	6	—
Actuarial (gain) loss	11	15
Gross benefits paid (a)	(34)	(28)
Benefit Obligation, end of period	326	329
Change in Plan Assets		
Plan assets at fair value, beginning of period	318	297
Actual return on plan assets	41	14
Employer contributions	—	35
Gross benefits paid	(34)	(28)
Plan assets at fair value, end of period	325	318
Funded Status, end of period	\$ (1)	\$ (11)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	\$ (1)	\$ (11)
Net amount recognized, end of period	\$ (1)	\$ (11)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	\$ 27	\$ 25
Net actuarial loss	92	110
Total	\$ 119	\$ 135
Total accumulated benefit obligation for defined benefit pension plan	\$ 326	\$ 329

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- (a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by \$10 million as a result of the amendment. Gross benefits paid by the plan include lump-sum cash payments made to participants during 2017 and 2016 of \$19 million and \$14 million in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2017 and 2016.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2017	2016
Pension	\$ 44	\$ 42
Other postretirement benefits	74	76

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. As a result of the spinoff of PPL Energy Supply in 2015, pension and other postretirement plans were remeasured resulting in adjustments to PPL Electric's allocated balances of \$56 million, reflected as a non-cash contribution on the Statement of Equity. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	2017	2016
Pension	\$ 246	\$ 281
Other postretirement benefits	62	72

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2017	2016
Pension	\$ 36	\$ 62
Other postretirement benefits	32	40

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

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The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2017 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2017
	2017 (a)	2016	Target Asset Allocation (a)
Growth Portfolio	56%	52%	55%
Equity securities	32%	30%	
Debt securities (b)	14%	12%	
Alternative investments	10%	10%	
Immunizing Portfolio	43%	46%	43%
Debt securities (b)	39%	43%	
Derivatives	4%	3%	
Liquidity Portfolio	1%	2%	2%
Total	100%	100%	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.4 billion and \$1.3 billion at December 31, 2017 and 2016 represents an interest of approximately 40% and 41% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$325 million and \$318 million at December 31, 2017 and 2016 represents an interest of approximately 9% and 10% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	\$ 301	\$ 301	\$ —	\$ —	\$ 181	\$ 181	\$ —	\$ —
Equity securities:								
U.S. Equity	229	229	—	—	152	152	—	—
U.S. Equity fund measured at NAV (a)	364	—	—	—	272	—	—	—
International equity fund at NAV (a)	538	—	—	—	551	—	—	—
Commingled debt measured at NAV (a)	611	—	—	—	546	—	—	—

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	December 31, 2017				December 31, 2016			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	186	186	—	—	381	381	—	—
Corporate	883	—	870	13	850	—	837	13
Other	10	—	10	—	8	—	8	—
Alternative investments:								
Real estate measured at NAV (a)	109	—	—	—	102	—	—	—
Private equity measured at NAV (a)	80	—	—	—	80	—	—	—
Hedge funds measured at NAV (a)	175	—	—	—	167	—	—	—
Derivatives:								
Interest rate swaps and swaptions	50	—	50	—	61	—	61	—
Other	1	—	1	—	3	—	3	—
Insurance contracts	24	—	—	24	27	—	—	27
PPL Services Corporation Master Trust assets, at fair value	3,561	\$ 716	\$ 931	\$ 37	3,381	\$ 714	\$ 909	\$ 40
Receivables and payables, net (b)	72				(15)			
401(h) accounts restricted for other postretirement benefit obligations	(145)				(123)			
Total PPL Services Corporation Master Trust pension assets	\$ 3,488				\$ 3,243			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2017 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 13	\$ 27	\$ 40
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	—	(4)	(4)
Balance at end of period	\$ 13	\$ 24	\$ 37

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2016 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 10	\$ 32	\$ 42
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	3	(6)	(3)
Balance at end of period	\$ 13	\$ 27	\$ 40

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

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The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$28 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed within 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

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Asset Class	Percentage of plan assets		Target Asset Allocation
	2017	2016	2017
U.S. Equity securities	47%	48%	45%
Debt securities (a)	49%	50%	50%
Cash and cash equivalents (b)	4%	2%	5%
Total	100%	100%	100%

- (a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	\$ 10	\$ 10	\$ —	\$ —	\$ 5	\$ 5	\$ —	\$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	123	—	—	—	123	—	—	—
Commingled debt fund measured at NAV (a)	96	—	—	—	114	—	—	—
Debt securities:								
Corporate bonds	30	—	30	—	—	—	—	—
Municipalities	—	—	—	—	12	—	12	—
Total VEBA trust assets, at fair value	259	\$ 10	\$ 30	\$ —	254	\$ 5	\$ 12	\$ —
Receivables and payables, net (b)	1				1			
401(h) account assets	145				123			
Total other postretirement benefit plan assets	\$ 405				\$ 378			

- (a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset
	2017	2016	Allocation
			2017
Cash and cash equivalents	2%	1%	—%
Equity securities			
U.K.	2%	3%	2%
European (excluding the U.K.)	1%	2%	1%
Asian-Pacific	1%	2%	1%
North American	1%	3%	1%
Emerging markets	1%	3%	1%
Global equities	16%	6%	10%
Global Tactical Asset Allocation	33%	33%	41%
Debt securities (a)	37%	41%	38%
Alternative investments	6%	6%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 216	\$ 216	\$ —	\$ —	\$ 42	\$ 42	\$ —	\$ —
Equity securities measured at NAV (a) :								
U.K. companies	157	—	—	—	210	—	—	—
European companies (excluding the U.K.)	98	—	—	—	177	—	—	—
Asian-Pacific companies	60	—	—	—	140	—	—	—
North American companies	123	—	—	—	227	—	—	—
Emerging markets companies	62	—	—	—	209	—	—	—
Global Equities	1,335	—	—	—	466	—	—	—
Other	2,807	—	—	—	2,363	—	—	—
Debt Securities:								
U.K. corporate bonds	3	—	3	—	2	—	2	—
U.K. gilts	3,137	—	3,137	—	2,940	—	2,940	—
Alternative investments:								
Real estate measured at NAV (a)	492	—	—	—	435	—	—	—
Fair value - U.K. pension plans	\$ 8,490	\$ 216	\$ 3,140	\$ —	\$ 7,211	\$ 42	\$ 2,942	\$ —

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

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Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds, which are considered in the Global Tactical Asset Allocation target.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed \$145 million to its U.S. pension plans in January 2018. No additional contributions are expected in 2018.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$13 million of benefit payments under these plans in 2018.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$14 million to its other postretirement benefit plans in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

	Other Postretirement		
	Pension	Benefit Payment	Expected Federal Subsidy
2018	\$ 260	\$ 51	\$ 1
2019	269	51	—
2020	268	50	1
2021	270	49	—
2022	272	48	—
2023-2027	1,328	218	2

(LKE)

While LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed \$105 million to its pension plans in January 2018. No additional contributions are expected in 2018.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$4 million of benefit payments under these plans in 2018.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected \$14 million to its other postretirement benefit plan in 2018.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

	Other Postretirement		
	Pension	Benefit Payment	Expected Federal Subsidy
2018	\$ 109	\$ 14	\$ —
2019	113	15	—
2020	114	16	1
2021	115	16	—
2022	116	16	—
2023-2027	573	79	2

(LG&E)

While LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements, LG&E contributed \$54 million to its pension plan in January 2018. No additional contributions are expected in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2018	\$ 26
2019	26
2020	26
2021	25
2022	24
2023-2027	104

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuation performed as of March 31, 2016. WPD expects to make contributions of approximately \$191 million in 2018. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2018	\$ 343
2019	349
2020	353
2021	356
2022	362
2023-2027	1,843

Savings Plans (All Registrants)

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2017	2016	2015
PPL	\$ 36	\$ 35	\$ 34
PPL Electric	6	6	6
LKE	18	17	16
LG&E	5	5	5
KU	4	4	4

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job-related qualifications or organizational changes. These benefits include cash severance payments and a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage based on an employee's years of service along with outplacement services. Separation benefits are recorded when such amounts are probable and estimable.

See Note 8 for a discussion of separation benefits recognized in 2015 related to the spinoff of PPL Energy Supply. Separation benefits were not significant in 2017 and 2016.

12. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2017 and 2016, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2017				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 427	\$ 69	\$ 1
Trimble County Unit 2	75.00%	1,032	176	198
December 31, 2016				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 407	\$ 55	\$ 1
Trimble County Unit 2	75.00%	1,026	161	83
LG&E				
December 31, 2017				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 41	\$ 17	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	52	15	—
Trimble County Unit 1	75.00%	427	69	1
Trimble County Unit 2	14.25%	215	36	102
Trimble County Units 5-6	29.00%	32	9	—
Trimble County Units 7-10	37.00%	73	21	—
Cane Run Unit 7	22.00%	120	8	1
E.W. Brown Solar Unit	39.00%	10	1	—
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 40	\$ 15	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	55	12	1
Trimble County Unit 1	75.00%	407	55	1
Trimble County Unit 2	14.25%	214	32	43
Trimble County Units 5-6	29.00%	30	8	1
Trimble County Units 7-10	37.00%	71	17	1
Cane Run Unit 7	22.00%	114	5	2
E.W. Brown Solar Unit	39.00%	10	—	—

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	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
KU				
December 31, 2017				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 66	\$ 27	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	13	—
Trimble County Unit 2	60.75%	817	140	96
Trimble County Units 5-6	71.00%	76	20	—
Trimble County Units 7-10	63.00%	120	34	—
Cane Run Unit 7	78.00%	431	31	4
E.W. Brown Solar Unit	61.00%	16	1	—

December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 65	\$ 23	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	50	11	1
Trimble County Unit 2	60.75%	812	129	40
Trimble County Units 5-6	71.00%	74	19	—
Trimble County Units 7-10	63.00%	121	29	1
Cane Run Unit 7	78.00%	412	18	4
E.W. Brown Solar Unit	61.00%	15	—	—

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

(PPL)

All commitments, contingencies and guarantees associated with PPL Energy Supply and its subsidiaries were retained by Talen Energy and its subsidiaries at the spinoff date without recourse to PPL.

Energy Purchase Commitments (PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2019
Natural Gas Retail Supply	2019
Coal	2023
Coal Transportation and Fleeting Services	2024
Natural Gas Transportation	2026

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LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2018	\$ 20	\$ 9	\$ 29
2019	19	8	27
2020	18	8	26
2021	19	8	27
2022	19	8	27
Thereafter	316	141	457
Total	\$ 411	\$ 182	\$ 593

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2017	2016	2015
LG&E	\$ 14	\$ 16	\$ 15
KU	6	7	7
Total	\$ 20	\$ 23	\$ 22

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

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(PPL, LKE and KU)

E.W. Brown Environmental Claims

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. KU is undertaking extensive remedial measures at the Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan, and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. PPL, LKE and KU cannot predict the outcome of these matters.

(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a "special waste" landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit which were subsequently dismissed by agreed order entered in August 2017. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws.

(All Registrants)

Regulatory Issues

See Note 6 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

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PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

Ozone

The EPA issued the current ozone standard in October 2015. The states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment demonstrations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. While implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. While PPL, LKE, LG&E, and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E, and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act

There continues to be uncertainty around the EPA's regulation of existing coal-fired power plants. In 2015 the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court, and the President's March 2017 Executive Order (requiring the EPA to review the 2015 EPA Rules), however, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and in December 2017, released an advanced notice of proposed rulemaking for a replacement rule (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. The EPA has advised the court that it expects to reconsider certain aspects of the CCR Rule in the near future.

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In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR Rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain elements of the new rule. PPL, LKE, LG&E and KU cannot predict the ultimate outcome of the litigation. LG&E and KU presently operate their Trimble County facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the challenge to the new rule. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. The Kentucky Energy and Environmental Cabinet indicated it may propose rules under such authority in the future.

LG&E and KU received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 19 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, taking various measures, remediating, or have completed the remediation of, for several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At December 31, 2017, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 54 employees. The terms of the new labor agreement do not have a significant impact on the financial results of LKE or KU.

(LKE and LG&E)

In November 2017, LG&E and the IBEW ratified a three-year labor agreement through November 2020. The agreement covers approximately 671 employees. The terms of the new labor agreement do not have a significant impact on the financial results of LKE or LG&E.

The Registrants cannot predict the outcome of future union labor negotiations.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of December 31, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at December 31, 2017 was \$17 million for PPL and \$11 million for LKE. The \$11 million recorded at LKE represents the settlement amount related to WKE's excess power matter. See footnote (e) for additional information. The total recorded liability at December 31, 2016 was \$22 million for PPL and \$17 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

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	Exposure at December 31, 2017	Expiration Date
PPL		
Indemnifications related to the WPD Midlands acquisition		(a)
WPD indemnifications for entities in liquidation and sales of assets	\$ 11	(b) 2020
WPD guarantee of pension and other obligations of unconsolidated entities	95	(c)
PPL Electric		
Guarantee of inventory value	16	(d) 2018
LKE		
Indemnification of lease termination and other divestitures	201	(e) 2021-2023
LG&E and KU		
LG&E and KU guarantee of shortfall related to OVEC		(f)

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold. In January 2018, this agreement was superseded by a new contract which extends the guarantee until 2020.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee formerly covered other indemnifications related to the purchase price of excess power, had a term expiring in 2023, and a maximum exposure of \$100 million, which excess power matter and related indemnifications had been the subject of a dispute and legal proceeding among the parties. In December 2017, the parties executed settlement agreements which resolved all claims relating to the excess power matter, and terminated such guarantee, for \$11 million. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$117 million at December 31, 2017, consisting of LG&E's share of \$81 million and KU's share of \$36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, have allowed implementation of a limited, partial OVEC reserve fund for debt costs and are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

14. Related Party Transactions

PLR Contracts/Purchases of Accounts Receivable *(PPL Electric)*

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus was awarded a portion of the PLR generation supply through these competitive solicitations. The purchases from PPL EnergyPlus are included in PPL Electric's Statements of Income as "Energy purchases from affiliate" through May 31, 2015, the period through which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

Support Costs *(PPL Electric, LKE, LG&E and KU)*

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric and LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2017	2016	2015
PPL Electric from PPL Services	\$ 182	\$ 132	\$ 125
LKE from PPL Services	20	18	16
PPL Electric from PPL EU Services	64	69	60
LG&E from LKS	169	178	155
KU from LKS	190	194	185

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a \$400 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at December 31, 2017 and 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income on the revolving line of credit was not significant for 2017, 2016 or 2015.

(LKE)

LKE maintains a revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. In December 2017, the revolving line of credit was increased by \$50 million and the limit as of December 31, 2017 was \$275 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2017 and 2016, \$225 million and \$163 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2017 and 2016 was 2.87% and 2.12%. Interest expense on the revolving line of credit was not significant for 2017, 2016 or 2015.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2017 and 2016. The interest rate on the loan based on the PPL affiliates credit rating is currently equal to one-month LIBOR plus a spread. Interest income on this note was not significant for 2017, 2016 or 2015.

LKE maintains a \$400 million ten-year-note with a PPL affiliate with an interest rate of 3.5%. At December 31, 2017 and 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$14 million for 2017 and 2016 and not significant for 2015.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2017 and 2016. Interest expense incurred on the money pool agreement with KU was not significant for 2017 or 2016. There was no money pool activity with KU in 2015.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2017 and 2016. Interest income incurred on the money pool agreement with LG&E was not significant for 2017 and 2016. There was no money pool activity with LG&E in 2015.

Intercompany Derivatives *(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties.

Other *(PPL Electric, LKE, LG&E and KU)*

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

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	2017	2016	2015
Other Income			
Economic foreign currency exchange contracts (Note 17)	\$ (261)	\$ 384	\$ 122
Interest income	2	3	4
AFUDC - equity component	16	19	14
Miscellaneous	17	6	6
Total Other Income	(226)	412	146
Other Expense			
Charitable contributions	8	9	21
Miscellaneous	21	13	17
Total Other Expense	29	22	38
Other Income (Expense) - net	<u>\$ (255)</u>	<u>\$ 390</u>	<u>\$ 108</u>

16. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<u>PPL</u>								
Assets								
Cash and cash equivalents	\$ 485	\$ 485	\$ —	\$ —	\$ 341	\$ 341	\$ —	\$ —
Restricted cash and cash equivalents (a)	26	26	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	163	—	163	—	211	—	211	—
Cross-currency swaps	101	—	101	—	188	—	188	—
Total price risk management assets	264	—	264	—	399	—	399	—
Total assets	\$ 775	\$ 511	\$ 264	\$ —	\$ 766	\$ 367	\$ 399	\$ —

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	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 26	\$ —	\$ 26	\$ —	\$ 31	\$ —	\$ 31	\$ —
Foreign currency contracts	148	—	148	—	27	—	27	—
Total price risk management liabilities	\$ 174	\$ —	\$ 174	\$ —	\$ 58	\$ —	\$ 58	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 49	\$ 49	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 51	\$ 51	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 30	\$ 30	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Cash collateral posted to counterparties (c)	—	—	—	—	3	3	—	—
Total assets	\$ 30	\$ 30	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 26	\$ —	\$ 26	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 26	\$ —	\$ 26	\$ —	\$ 31	\$ —	\$ 31	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 15	\$ 15	\$ —	\$ —	\$ 5	\$ 5	\$ —	\$ —
Cash collateral posted to counterparties (c)	—	—	—	—	3	3	—	—
Total assets	\$ 15	\$ 15	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 26	\$ —	\$ 26	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 26	\$ —	\$ 26	\$ —	\$ 31	\$ —	\$ 31	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 15	\$ 15	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —
Total assets	\$ 15	\$ 15	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
- (c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Nonrecurring Fair Value Measurements (PPL)

See Note 8 for information regarding the estimated fair value of the Supply segment's net assets as of the June 1, 2015 spinoff date.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,195	\$ 23,783	\$ 18,326	\$ 21,355
PPL Electric	3,298	3,769	2,831	3,148
LKE	5,159	5,670	5,065	5,439
LG&E	1,709	1,865	1,617	1,710
KU	2,328	2,605	2,327	2,514

(a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

17. Derivative Instruments and Hedging Activities**Risk Management Objectives**

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E

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and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.

- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements (*PPL, LKE, LG&E and KU*)

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$20 million and \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2017 and 2016.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2017 and 2016.

PPL, LKE, and LG&E had no cash collateral posted under master netting arrangements at December 31, 2017. PPL, LKE and LG&E posted \$3 million of cash collateral under master netting arrangements at December 31, 2016.

KU did not post any cash collateral under master netting arrangements at December 31, 2017 and 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges (*PPL*)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at December 31, 2017.

For 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For 2016 and 2015, hedge ineffectiveness associated with interest rate derivatives was insignificant.

At December 31, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. In December 2017, \$100 million of WPD's U.S. dollar-denominated senior notes were repaid upon maturity and \$100 million notional value of cross-currency interest rate swap contracts matured. PPL recorded a \$19 million gain upon settlement of the cross-currency interest rate swap contracts, which largely offset a loss recorded on the revaluation of U.S. dollar-denominated senior notes.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2017 and 2016.

As a result of the June 1, 2015 spinoff of PPL Energy Supply, all PPL cash flow hedges associated with PPL Energy Supply were ineffective and discontinued and therefore, reclassified into earnings during the second quarter of 2015 and reflected in discontinued operations for 2015. See Note 8 for additional information. PPL had no other cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2015.

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At December 31, 2017, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. In December 2016, a swap with a notional amount of \$32 million was terminated. A cash settlement of \$9 million was paid on the terminated swap. The settlement is included in noncurrent regulatory assets on the Balance Sheet and in "Cash Flows from Operating Activities" on the Statement of Cash Flows. At December 31, 2017, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at December 31, 2017.

At December 31, 2017 and 2016, PPL had \$22 million and \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2017, the total exposure hedged by PPL was approximately £2.6 billion (approximately \$3.5 billion based on contracted rates). These contracts had termination dates ranging from January 2018 through June 2020.

In the third quarter of 2016, PPL settled foreign currency hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of \$310 million of cash and entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2017 and 2016.

See Note 1 for additional information on accounting policies related to derivative instruments.

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(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	4	—	—	—	32	—	—	—
Foreign currency contracts	—	—	45	67	—	—	31	21
Total current	4	—	45	71	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	22	—	—	—	27
Cross-currency swaps (b)	97	—	—	—	156	—	—	—
Foreign currency contracts	—	—	118	81	—	—	180	6
Total noncurrent	97	—	118	103	156	—	180	33
Total derivatives	\$ 101	\$ —	\$ 163	\$ 174	\$ 188	\$ —	\$ 211	\$ 58

- (a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2017				
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest Expense	\$ (9)	\$ —
Cross-currency swaps	(98)	Other Income (Expense) - net	(82)	—
Total	\$ (98)		\$ (91)	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 1			
2016				
Cash Flow Hedges:				
Interest rate swaps	\$ (21)	Interest Expense	\$ (7)	\$ —
Cross-currency swaps	130	Other Income (Expense) - net	116	—
		Interest Expense	3	—
Total	\$ 109		\$ 112	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 2			

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2015				
Cash Flow Hedges:				
Interest rate swaps	\$ (34)	Interest Expense	\$ (11)	\$ —
		Discontinued operations	—	(77)
Cross-currency swaps	60	Other Income (Expense) - net	49	—
		Interest Expense	2	—
Commodity contracts		Discontinued operations	13	7
Total	\$ 26		\$ 53	\$ (70)
Net Investment Hedges:				
Foreign currency contracts	\$ 9			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2017	2016	2015
Foreign currency contracts	Other Income (Expense) - net	\$ (261)	\$ 384	\$ 122
Interest rate swaps	Interest Expense	(6)	(7)	(8)
	Total	\$ (267)	\$ 377	\$ 114

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ —	\$ (22)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	\$ 5	\$ 7	\$ 1

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ —	\$ (22)

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory asset - noncurrent	\$ —	\$ —	\$ (11)

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	\$ —	\$ —	\$ (11)

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(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	December 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	22	—	27
Total noncurrent	—	22	—	27
Total derivatives	\$ —	\$ 26	\$ —	\$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets.

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Interest Expense	\$ (6)	\$ (7)	\$ (8)

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	\$ 5	\$ 7	\$ 1

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
December 31, 2017								
Treasury Derivatives								
PPL	\$ 264	\$ 107	\$ 20	\$ 137	\$ 174	\$ 107	\$ —	\$ 67
LKE	—	—	—	—	26	—	—	26
LG&E	—	—	—	—	26	—	—	26

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2016								
Treasury Derivatives								
PPL	\$ 399	\$ 27	\$ 19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features, which when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At December 31, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 51	\$ 10	\$ 10
Aggregate fair value of collateral posted on these derivative instruments	—	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	51	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Total	
	2017	2016	2017	2016	2017	2016
Balance at beginning of period (a)	\$ 2,398	\$ 2,888	\$ 662	\$ 662	\$ 3,060	\$ 3,550
Effect of foreign currency exchange rates	198	(490)			198	(490)
Balance at end of period (a)	\$ 2,596	\$ 2,398	\$ 662	\$ 662	\$ 3,258	\$ 3,060

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(a) There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	\$ 138	\$ 67	\$ 405	\$ 325
Land and transmission rights	382	120	362	115
Emission allowances/RECs (b)	1	—	2	—
Licenses and other	7	3	6	2
Total subject to amortization	528	190	775	442
Not subject to amortization due to indefinite life:				
Land and transmission rights	12	—	19	—
Easements	347	—	348	—
Total not subject to amortization due to indefinite life	359	—	367	—
Total	\$ 887	\$ 190	\$ 1,142	\$ 442

(a) Gross carrying amount in 2017 and 2016 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. Gross carrying amount in 2016 also includes the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. At December 31, 2016, these coal contracts were fully amortized. Offsetting regulatory liabilities were recorded related to these contracts, which are being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.

(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	\$ 6	\$ 6	\$ 6
Intangible assets with regulatory offset	9	24	51
Total	\$ 15	\$ 30	\$ 57

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with no regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6
Intangible assets with regulatory offset	9	9	8	8	8
Total	\$ 15	\$ 15	\$ 14	\$ 14	\$ 14

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(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	\$ 361	\$ 117	\$ 341	\$ 112
Licenses and other	3	1	3	1
Total subject to amortization	364	118	344	113
Not subject to amortization due to indefinite life:				
Land and transmission rights	13	—	20	—
Total	\$ 377	\$ 118	\$ 364	\$ 113

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2017, 2016 and 2015 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ —	\$ —	\$ 269	\$ 269
Land and transmission rights	21	3	21	3
OVEC power purchase agreement (b)	126	58	126	49
Total subject to amortization	\$ 147	\$ 61	\$ 416	\$ 321

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.
- (b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	\$ —	\$ 1	\$ —
Intangible assets with regulatory offset	9	24	51
Total	\$ 9	\$ 25	\$ 51

Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	\$ 9	\$ 9	\$ 8	\$ 8	\$ 8

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(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ —	\$ —	\$ 124	\$ 124
Land and transmission rights	7	1	7	1
OVEC power purchase agreement (b)	87	40	87	34
Total subject to amortization	\$ 94	\$ 41	\$ 218	\$ 159

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.
- (b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with regulatory offset	\$ 6	\$ 13	\$ 24

Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ —	\$ —	\$ 145	\$ 145
Land and transmission rights	14	2	14	2
OVEC power purchase agreement (b)	39	18	39	15
Total subject to amortization	\$ 53	\$ 20	\$ 198	\$ 162

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.
- (b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	\$ —	\$ 1	\$ —
Intangible assets with regulatory offset	3	11	27
Total	\$ 3	\$ 12	\$ 27

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Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	\$ 3	\$ 3	\$ 2	\$ 2	\$ 2

19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

The changes in the carrying amounts of AROs were as follows:

	PPL		LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016	2017	2016
ARO at beginning of period	\$ 488	\$ 586	\$ 433	\$ 535	\$ 145	\$ 175	\$ 288	\$ 360
Accretion	21	24	20	22	7	7	13	15
Changes in estimated timing or cost (a)	(73)	(84)	(54)	(95)	(8)	(19)	(46)	(76)
Effect of foreign currency exchange rates	4	(9)	—	—	—	—	—	—
Obligations settled	(43)	(29)	(43)	(29)	(23)	(18)	(20)	(11)
ARO at end of period	\$ 397	\$ 488	\$ 356	\$ 433	\$ 121	\$ 145	\$ 235	\$ 288

(a) LKE recorded decreases of \$60 million (\$52 million at KU and \$8 million at LG&E) and \$114 million (\$90 million at KU and \$24 million at LG&E) to the existing AROs during 2017 and 2016 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

See Note 13 for information on the final CCR rule and Note 6 for information on the rate recovery applications.

20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 were as follows:

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	Foreign currency translation adjustments	Unrealized gains (losses)			Defined benefit plans		Total
		Available- for-sale securities	Qualifying derivatives	Equity investees' AOCI	Prior service costs	Actuarial gain (loss)	
PPL							
December 31, 2014	\$ (286)	\$ 201	\$ 20	\$ 1	\$ 3	\$ (2,213)	\$ (2,274)
Amounts arising during the year	(234)	8	26	—	(9)	(366)	(575)
Reclassifications from AOCI	—	(2)	2	(1)	—	146	145
Net OCI during the year	(234)	6	28	(1)	(9)	(220)	(430)
Distribution of PPL Energy Supply (See Note 8)	—	(207)	(55)	—	—	238	(24)
December 31, 2015	\$ (520)	\$ —	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the year	(1,107)	—	91	—	(3)	(61)	(1,080)
Reclassifications from AOCI	—	—	(91)	(1)	1	121	30
Net OCI during the year	(1,107)	—	—	(1)	(2)	60	(1,050)
December 31, 2016	\$ (1,627)	\$ —	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the year	538	—	(79)	—	—	(308)	151
Reclassifications from AOCI	—	—	73	1	1	130	205
Net OCI during the year	538	—	(6)	1	1	(178)	356
December 31, 2017	\$ (1,089)	\$ —	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
LKE							
December 31, 2014				\$ —	\$ (8)	\$ (37)	\$ (45)
Amounts arising during the year				—	(3)	(4)	(7)
Reclassifications from AOCI				—	1	5	6
Net OCI during the year				—	(2)	1	(1)
December 31, 2015				\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the year				—	—	(27)	(27)
Reclassifications from AOCI				(1)	2	2	3
Net OCI during the year				(1)	2	(25)	(24)
December 31, 2016				\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the year				—	(2)	(23)	(25)
Reclassifications from AOCI				1	1	5	7
Net OCI during the year				1	(1)	(18)	(18)
December 31, 2017				\$ —	\$ (9)	\$ (79)	\$ (88)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2017, 2016 and 2015. LKE amounts are insignificant for the years ended December 31, 2017, 2016 and 2015. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

Details about AOCI	PPL			Affected Line Item on the Statements of Income
	2017	2016	2015	
Available-for-sale securities	\$ —	\$ —	\$ 4	Other Income (Expense) - net
Total Pre-tax	—	—	4	
Income Taxes	—	—	(2)	
Total After-tax	—	—	2	

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Details about AOCI	PPL			Affected Line Item on the Statements of Income
	2017	2016	2015	
Qualifying derivatives				
Interest rate swaps	(9)	(7)	(11)	Interest Expense
	—	—	(77)	Discontinued operations
Cross-currency swaps	(82)	116	49	Other Income (Expense) - net
	—	3	2	Interest Expense
Commodity contracts	—	—	20	Discontinued operations
Total Pre-tax	(91)	112	(17)	
Income Taxes	18	(21)	15	
Total After-tax	(73)	91	(2)	
Equity Investees' AOCI				
	(1)	1	1	Other Income (Expense) - net
Total Pre-tax	(1)	1	1	
Income Taxes	—	—	—	
Total After-tax	(1)	1	1	
Defined benefit plans				
Prior service costs	(2)	(2)	—	
Net actuarial loss	(167)	(156)	(192)	
Total Pre-tax	(169)	(158)	(192)	
Income Taxes	38	36	46	
Total After-tax	(131)	(122)	(146)	
Total reclassifications during the year	\$ (205)	\$ (30)	\$ (145)	

21. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Registrants have completed an assessment of their revenue under this new guidance and have determined it will not have a material impact on their current revenue recognition policies. The Registrants' operating revenues are derived primarily from tariff-based sales that result from providing electricity and natural gas to customers with no defined contractual term. Tariff-based sales are within the scope of the new guidance, and operating revenues under the new guidance will be equivalent to the electricity and natural gas delivered and billed in that period (including estimated billings), which is consistent with current practice.

The disclosure requirements included in the standard will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Registrants will include disaggregation of revenues by geographic location, customer class or type of service, as applicable. Some revenue arrangements, including alternative revenue programs and lease income, are excluded from the scope of the new guidance and will be accounted for and disclosed separately from revenues from contracts with customers. The Registrants will also disclose the opening and closing balances of accounts receivable and any contract assets or contract liabilities resulting from contracts with customers.

The Registrants adopted this guidance effective January 1, 2018 using the modified retrospective transition method.

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Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. One of these practical expedients allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Registrants adopted this guidance effective January 1, 2018.

For PPL's, LKE's and LG&E's U.S. defined benefit pension and PPL's and LKE's other postretirement benefit plans, the adoption of this new guidance is not expected to have a material impact on either the presentation on the income statements or the amounts capitalized and related impact to expense, as the difference between the service cost and the non-service cost components of net periodic benefit costs has not historically been and is not expected to be material in 2018.

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For PPL's U.K. defined benefit pension plans, the non-service cost components of net periodic benefit cost has been in a net-credit position for the current reporting periods and is expected to continue to be in a net-credit position for 2018. Therefore, the estimated impact of adopting this new guidance related to the non-service cost component credits to be reclassified from "Other operation and maintenance" to "Other Income (Expense)-net" on the Statements of Income is approximately \$175 million and \$120 million for the years ended 2017 and 2016.

The Registrants are finalizing the expected 2018 impacts of adopting the guidance as the amounts are affected by market conditions and assumptions selected at December 31, 2017.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL and LKE)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The Registrants are currently assessing this guidance and the period in which they will adopt it.

**SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars, except share data)

	2017	2016	2015
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses			
Other operation and maintenance	2	2	9
Total Operating Expenses	2	2	9
Operating Loss	(2)	(2)	(9)
Other Income (Expense) - net			
Equity in earnings of subsidiaries	1,175	1,915	711
Other income (expense)	(1)	(1)	(15)
Total	1,174	1,914	696
Interest Expense	8	8	9
Interest Expense with Affiliates	16	10	10
Income Before Income Taxes	1,148	1,894	668
Income Taxes	20	(8)	(14)
Net Income	\$ 1,128	\$ 1,902	\$ 682
Total other comprehensive income (loss)	356	(1,050)	(430)
Comprehensive Income Attributable to PPL Shareowners	\$ 1,484	\$ 852	\$ 252
Earnings Per Share of Common Stock:			
Net Income Available to PPL Common Shareowners:			
Basic	\$ 1.64	\$ 2.80	\$ 1.01
Diluted	\$ 1.64	\$ 2.79	\$ 1.01
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	685,240	677,592	669,814
Diluted	687,334	680,446	672,586

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

**SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	<u>\$ 1,108</u>	<u>\$ 1,563</u>	<u>\$ 993</u>
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(585)	(308)	(491)
Return of capital from affiliated subsidiaries	—	—	112
Net cash provided by (used in) investing activities	<u>(585)</u>	<u>(308)</u>	<u>(379)</u>
Cash Flows from Financing Activities			
Issuance of equity, net of issuance costs	453	144	203
Net increase (decrease) in short-term debt with affiliates	113	(341)	215
Payment of common stock dividends	(1,072)	(1,030)	(1,004)
Other	(21)	(24)	(28)
Net cash provided by (used in) financing activities	<u>(527)</u>	<u>(1,251)</u>	<u>(614)</u>
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents at Beginning of Period	4	—	—
Cash and Cash Equivalents at End of Period	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ —</u>
Supplemental Disclosures of Cash Flow Information:			
Cash Dividends Received from Subsidiaries	<u>\$ 1,253</u>	<u>\$ 1,510</u>	<u>\$ 1,198</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

**SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**

(Millions of Dollars, shares in thousands)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ —	\$ 4
Accounts Receivable		
Other	7	7
Affiliates	17	10
Price risk management assets	196	63
Total Current Assets	<u>220</u>	<u>84</u>
Investments		
Affiliated companies at equity	<u>11,141</u>	<u>10,160</u>
Other Noncurrent Assets		
Deferred income taxes	46	70
Price risk management assets	186	284
Other noncurrent assets	1	1
Total Other Noncurrent Assets	<u>233</u>	<u>355</u>
Total Assets	<u>\$ 11,594</u>	<u>\$ 10,599</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt with affiliates	\$ 157	\$ 44
Accounts payable with affiliates	2	30
Dividends	273	259
Price risk management liabilities	233	237
Other current liabilities	19	20
Total Current Liabilities	<u>684</u>	<u>590</u>
Deferred Credits and Other Noncurrent Liabilities	<u>149</u>	<u>110</u>
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,305	9,841
Earnings reinvested	3,871	3,829
Accumulated other comprehensive loss	(3,422)	(3,778)
Total Equity	<u>10,761</u>	<u>9,899</u>
Total Liabilities and Equity	<u>\$ 11,594</u>	<u>\$ 10,599</u>

(a) 1,560,000 shares authorized; 693,398 and 679,731 shares issued and outstanding at December 31, 2017 and December 31, 2016.

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

**SCHEDULE I - PPL CORPORATION
NOTES TO CONDENSED UNCONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation

PPL Corporation is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. PPL Corporation uses the equity method to account for its investments in entities in which it has a controlling financial interest. PPL Corporation's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends, loans or advances or repayment of loans and advances from it. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of PPL Corporation.

PPL Corporation indirectly or directly owns all of the ownership interests of its significant subsidiaries. PPL Corporation relies on dividends or loans from its subsidiaries to fund PPL Corporation's dividends to its common shareowners and to meet its other cash requirements. See Note 7 to PPL Corporation's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to PPL in the form of distributions, loans or advances.

2. Commitments and Contingencies

See Note 13 to PPL Corporation's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees and Other Assurances

PPL Corporation's subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts that may become due under PPL Corporation's guarantees or other assurances or to make any funds available for such payment.

PPL Corporation fully and unconditionally guarantees the payment of principal, premium and interest on all of the debt securities of PPL Capital Funding. The estimated maximum potential amount of future payments that could be required under the guarantees at December 31, 2017 was \$9.7 billion. These guarantees will expire in 2073. The probability of expected payment under these guarantees is remote.

**SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Other Income (Expense) - net			
Equity in Earnings of Subsidiaries	\$ 397	\$ 452	\$ 390
Interest Income with Affiliate	14	9	4
Total	<u>411</u>	<u>461</u>	<u>394</u>
Interest Expense	30	29	39
Interest Expense with Affiliate	<u>20</u>	<u>18</u>	<u>5</u>
Income Before Income Taxes	361	414	350
Income Tax Expense (Benefit)	<u>45</u>	<u>(15)</u>	<u>(14)</u>
Net Income	\$ <u>316</u>	\$ <u>429</u>	\$ <u>364</u>
Total other comprehensive loss	<u>(18)</u>	<u>(24)</u>	<u>(1)</u>
Comprehensive Income Attributable to Member	\$ <u>298</u>	\$ <u>405</u>	\$ <u>363</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

**SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

(Millions of Dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	\$ 401	\$ 285	\$ 246
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(30)	(91)	(140)
Net decrease (increase) in notes receivable from affiliates	(28)	47	73
Net cash provided by (used in) investing activities	(58)	(44)	(67)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	58	90	315
Net increase (decrease) in short-term debt	—	(75)	—
Retirement of long-term debt	—	—	(400)
Contribution from member	—	61	125
Distribution to member	(402)	(316)	(219)
Net cash provided by (used in) financing activities	(344)	(240)	(179)
Net Increase (Decrease) in Cash and Cash Equivalents	(1)	1	—
Cash and Cash Equivalents at Beginning of Period	<u>1</u>	<u>—</u>	<u>—</u>
Cash and Cash Equivalents at End of Period	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>
Supplemental disclosures of cash flow information:			
Cash Dividends Received from Subsidiaries	\$ 418	\$ 376	\$ 272

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

**SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,***(Millions of Dollars)*

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ —	\$ 1
Accounts receivable	1	—
Accounts receivable from affiliates	8	23
Income taxes receivable	1	31
Notes receivable from affiliates	1,035	1,007
Total Current Assets	1,045	1,062
Investments		
Affiliated companies at equity	5,209	5,219
Other Noncurrent Assets		
Deferred income taxes	263	227
Total Assets	\$ 6,517	\$ 6,508
Liabilities and Equity		
Current Liabilities		
Notes payable to affiliates	\$ 241	\$ 179
Accounts payable to affiliates	469	450
Taxes	35	—
Other current liabilities	5	6
Total Current Liabilities	750	635
Long-term Debt		
Long-term debt	722	721
Notes payable to affiliates	476	480
Total Long-term Debt	1,198	1,201
Deferred Credits and Other Noncurrent Liabilities	6	5
Equity	4,563	4,667
Total Liabilities and Equity	\$ 6,517	\$ 6,508

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

Schedule I - LG&E and KU Energy LLC Notes to Condensed Unconsolidated Financial Statements

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. LKE uses the equity method to account for its investments in entities in which it has a controlling financial interest. LKE's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's distributions to its member and to meet its other cash requirements. See Note 7 to LKE's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to LKE in the form of distributions, loans or advances.

2. Commitments and Contingencies

See Note 13 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee formerly covered other indemnifications related to the purchase price of excess power, had a term expiring in 2023, and a maximum exposure of \$100 million, which excess power matter and related indemnifications had been the subject of a dispute and legal proceeding among the parties. In December 2017, the parties executed settlement agreements which resolved all claims relating to the excess power matter, and terminated such guarantee, for \$11 million.

Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

3. Long-Term Debt

See Note 7 to LKE's consolidated financial statements for the terms of LKE's outstanding senior unsecured notes outstanding. Of the total outstanding, \$475 million matures in 2020 and \$250 million matures in 2021. These maturities are based on stated maturities. Also see Note 7 to LKE's consolidated financial statements for the terms of LKE's \$400 million note payable to a PPL affiliate. This note matures in 2026. LKE's \$76 million note payable to LG&E and KU Services Company bears a variable interest rate, which resets each quarter based on LIBOR. The rate at December 31, 2017 was 2.1%. This note matures in 2019.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)

PPL Corporation and Subsidiaries

(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2017				
Operating revenues	\$ 1,951	\$ 1,725	\$ 1,845	\$ 1,926
Operating income	796	702	777	793
Net income	403	292	355	78
Net income available to PPL common shareowners: (b)				
Basic EPS	0.59	0.43	0.52	0.11
Diluted EPS	0.59	0.43	0.51	0.11
Dividends declared per share of common stock (c)	0.3950	0.3950	0.3950	0.3950
Price per common share:				
High	\$ 37.70	\$ 40.06	\$ 39.83	\$ 38.37
Low	33.94	37.11	37.36	30.76
2016				
Operating revenues	\$ 2,011	\$ 1,785	\$ 1,889	\$ 1,832
Operating income	823	725	786	714
Net income	481	483	473	465
Net income available to PPL common shareowners: (b)				
Basic EPS	0.71	0.71	0.70	0.68
Diluted EPS	0.71	0.71	0.69	0.68
Dividends declared per share of common stock (c)	0.38	0.38	0.38	0.38
Price per common share:				
High	\$ 38.07	\$ 39.68	\$ 37.71	\$ 34.74
Low	32.80	36.27	33.63	32.19

- (a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2017				
Operating revenues	\$ 573	\$ 500	\$ 547	\$ 575
Operating income	159	156	189	197
Net income	79	77	95	111
2016				
Operating revenues	\$ 585	\$ 495	\$ 539	\$ 537
Operating income	180	154	176	154
Net income	94	79	90	77

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2017, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officers and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2017. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report contained on page 95.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Management of PPL's non-accelerated filer companies, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process

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designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2017. This annual report does not include an attestation report of Deloitte & Touche LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Board Committee Membership" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2017, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2017 Notice of Annual Meeting and Proxy Statement.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/Standards-of-Integrity. A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/Guidelines and www.pplweb.com/board-committees.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 10 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2017.

PPL Corporation

Name	Age	Positions Held During the Past Five Years	Dates
William H. Spence	60	Chairman, President and Chief Executive Officer	April 2012 - present
Joanne H. Raphael	58	Senior Vice President, General Counsel and Secretary	June 2015 - present
		Senior Vice President and Chief External Affairs Officer-PPL Services	October 2012 - May 2015
Vincent Sorgi	46	Senior Vice President and Chief Financial Officer	June 2014 - present
		Vice President and Controller	March 2010 - June 2014
Gregory N. Dudkin (a)	60	President-PPL Electric	March 2012 - present
Victor A. Staffieri (a)	62	Chairman of the Board and Chief Executive Officer-LKE	January 2017 - present
		Chairman of the Board, Chief Executive Officer and President-LKE	May 2001 - December 2016
Paul W. Thompson (a)	60	President and Chief Operating Officer-LKE	January 2017 - present
		Chief Operating Officer-LKE	February 2013 - December 2016
Robert A. Symons (a)	64	Chief Executive-WPD	January 2000 - present
Joseph P. Bergstein, Jr. (b)	47	Vice President-Investor Relations and Treasurer	January 2016 - December 31, 2017
		Vice President-Investor Relations and Financial Planning-PPL Services	February 2015 - December 2015
		Investor Relations Vice President-PPL Services	April 2012 - February 2015
Stephen K. Breininger	44	Vice President and Controller	January 2015 - present
		Controller	June 2014 - January 2015
		Assistant Controller-Business Lines	March 2013 - June 2014
		Controller-Supply Accounting	April 2010 - March 2013

(a) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

(b) Effective January 1, 2018, Tadd J. Henninger was elected Vice President and Treasurer of PPL and was deemed to be an executive officer of PPL as of that date. Mr. Bergstein's title changed on that date to Vice President-Investor Relations and Corporate Development & Planning of PPL.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "The Board's Role in Risk Oversight," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2017, and which information is incorporated herein by reference.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2017, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2017, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	495,422 – ICP 1,329,058 – SIP <u>1,937,703</u> – ICPKE 3,762,183 – Total	\$ 39.88 – ICP \$ 26.21 – SIP \$ 28.95 – ICPKE \$ 29.42 – Combined	1,720,050 – DDCP 10,506,026 – SIP <u>1,598,811</u> – ICPKE 13,824,887 – Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the ICP, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards were awarded to executive officers of PPL and no awards remain for issuance under this plan; (b) the ICPKE, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the DDCP, under which stock units may be awarded to directors of PPL. See Note 10 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2017. In addition, as of December 31, 2017, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 602,975 restricted stock units, 643,372 TSR performance awards and 67,916 ROE performance awards under the SIP; 941,524 restricted stock units 376,265 TSR performance awards and 29,013 ROE performance awards under the ICPKE; and 425,859 stock units under the DDCP.

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- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 15,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of stock units available for issuance was reduced to 2,000,000 stock units in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 12 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2017, and is incorporated herein by reference.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 13 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2017 and 2016" in PPL's 2018 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2017, and which information is incorporated herein by reference.

PPL Electric Utilities Corporation

For the fiscal year ended 2017 and 2016, Deloitte & Touche LLP (Deloitte) served as PPL Electric's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to PPL Electric, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by Deloitte.

	2017	2016
	(in thousands)	
Audit fees (a)	\$ 1,086	\$ 1,104
Audit-related fees (b)	28	—
All other fees (c)	253	—

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
(b) Includes fees for agreed upon procedures related to Annual EPA filings.
(c) Fees for a systems portfolio analysis.

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LG&E and KU Energy LLC

For the fiscal years ended 2017 and 2016, Deloitte served as LKE's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LKE, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by Deloitte.

	2017		2016
	(in thousands)		
Audit fees (a)	\$	1,717	\$ 1,767

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Louisville Gas and Electric Company

For the fiscal years ended 2017 and 2016, Deloitte served as LG&E's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LG&E, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by Deloitte.

	2017		2016
	(in thousands)		
Audit fees (a)	\$	826	\$ 814

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Kentucky Utilities Company

For the fiscal years ended 2017 and 2016, Deloitte served as KU's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to KU, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by Deloitte.

	2017		2016
	(in thousands)		
Audit fees (a)	\$	874	\$ 936

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees. The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2017 and 2016 services provided by Deloitte.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule I - PPL Corporation Condensed Unconsolidated Financial Statements.

Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meeting: The 2018 annual meeting of shareowners of PPL will be held on Wednesday, May 16, 2018, at The PPL Center, 701 Hamilton Street, Allentown, Pennsylvania.

Proxy Statement Material: A proxy statement and notice of PPL's annual meeting will be provided to all shareowners who are holders of record as of February 28, 2018. The latest proxy statement can be accessed at www.pplweb.com/PPLCorpProxy.

PPL Annual Report: The report will be published in the beginning of April and will be provided to all shareowners who are holders of record as of February 28, 2018. The latest annual report can be accessed at www.pplweb.com/PPLCorpProxy.

Dividends: Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The 2018 record dates for dividends are expected to be March 9, June 8, September 10 and December 10.

PPL's Website (www.pplweb.com): Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can subscribe to receive automated email alerts for SEC filings, earnings releases, daily stock prices or other financial news.

Financial reports which are available at www.pplweb.com will be mailed without charge upon request by writing to:

PPL Treasury Dept.
Two North Ninth Street
Allentown, PA 18101
Via email: invserv@pplweb.com

or by calling:

Shareowner Services, toll-free at 1-800-345-3085; or
PPL Corporate Offices at 610-774-5151.

Online Account Access: Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Direct Stock Purchase and Dividend Reinvestment Plans (Plan): PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or electronic funds transfer. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Listed Securities:

New York Stock Exchange

PPL Corporation:
Common Stock (Code: PPL)

PPL Capital Funding, Inc.:
2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)
2013 Series B Junior Subordinated Notes due 2073 (Code: PPX)

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Fiscal Agents:

Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator

Equiniti Trust Company
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085
Outside U.S.: 651-450-4064
Website: shareowneronline.com

Indenture Trustee

The Bank of New York Mellon
Corporate Trust Administration
500 Ross Street
Pittsburgh, PA 15262

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- [1\(a\)](#) - Securities Purchase and Registration Rights Agreement, dated March 5, 2014, among PPL Capital Funding, Inc., PPL Corporation, and the several purchasers named in Schedule B thereto (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- [1\(b\)](#) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporation (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- [1\(c\)](#) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- [1\(d\)](#) - Final Terms, dated November 14, 2017, of Western Power Distribution (South West) plc £250,000,000 2.375% Notes due May 2029 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 16, 2017)
- [2\(a\)](#) - Separation Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC., dated as of June 9, 2014 (Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- [2\(b\)](#) - Transaction Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- [3\(a\)](#) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 25, 2016 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- [3\(b\)](#) - Bylaws of PPL Corporation, effective as of December 18, 2015 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 21, 2015)
- [3\(c\)](#) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- [3\(d\)](#) - Bylaws of PPL Electric Utilities Corporation, effective as of October 27, 2015 (Exhibit 3(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2015)
- [3\(e\)](#) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- [3\(f\)-1](#) - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- [3\(f\)-2](#) - Amendment to Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 25, 2013 (Exhibit 3(h)-2) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)

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- [3\(g\)-1](#) - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- [3\(g\)-2](#) - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- [3\(h\)](#) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- [3\(i\)-1](#) - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- [3\(i\)-2](#) - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- [3\(j\)](#) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- [4\(a\)-1](#) - Amended and Restated Employee Stock Ownership Plan, dated December 1, 2016 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- [4\(a\)-2](#) - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017 (Exhibit 4(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- [4\(b\)](#) - Trust Deed constituting £150 million 9.25% percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- [4\(c\)-1](#) - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- [4\(c\)-2](#) - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- [4\(c\)-3](#) - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- [4\(c\)-4](#) - Supplemental Indenture No. 10, dated as of May 24, 2013, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- [4\(c\)-5](#) - Supplemental Indenture No. 11, dated as of May 24, 2013, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- [4\(c\)-6](#) - Supplemental Indenture No. 12, dated as of May 24, 2013, to said Indenture (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- [4\(c\)-7](#) - Supplemental Indenture No. 13, dated as of March 10, 2014, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- [4\(c\)-8](#) - Supplemental Indenture No. 14, dated as of March 10, 2014, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)

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- [4\(c\)-9](#) - Supplemental Indenture No. 15, dated as of May 17, 2016, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2016)
- [4\(c\)-10](#) - Supplemental Indenture No. 16, dated as of September 8, 2017, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- [4\(d\)-1](#) - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- [4\(d\)-2](#) - First Supplemental Indenture constituting the creation of \$200 million 6.75% Notes due 2004, \$200 million 6.875% Notes due 2007, \$225 million 6.50% Notes due 2008, \$100 million 7.25% Notes due 2017 and \$300 million 7.375% Notes due 2028, dated as of March 16, 2001, to said Indenture (Exhibit 4(n)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- [4\(d\)-3](#) - Second Supplemental Indenture, dated as of January 30, 2003, to said Indenture (Exhibit 4(n)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- [4\(d\)-4](#) - Third Supplemental Indenture, dated as of October 31, 2014, to said Indenture (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- [4\(d\)-5](#) - Fourth Supplemental Indenture, dated as of December 1, 2016 (Exhibit 4(d)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- [4\(e\)-1](#) - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- [4\(e\)-2](#) - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- [4\(e\)-3](#) - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- [4\(e\)-4](#) - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- [4\(e\)-5](#) - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- [4\(e\)-6](#) - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- [4\(e\)-7](#) - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- [4\(e\)-8](#) - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- [4\(e\)-9](#) - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)

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- [4\(e\)-10](#) - Supplemental Indenture No. 15, dated as of July 1, 2013, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- [4\(e\)-11](#) - Supplemental Indenture No. 16, dated as of June 1, 2014, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 5, 2014)
- [4\(e\)-12](#) - Supplemental Indenture No. 17, dated as of October 1, 2015, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 1, 2015)
- [4\(e\)-13](#) - Supplemental Indenture No. 18, dated as of March 1, 2016, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- [4\(e\)-14](#) - Supplemental Indenture No. 19, dated as of May 1, 2017, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 11, 2017)
- [4\(f\)-1](#) - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- [4\(f\)-2](#) - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- [4\(g\)-1](#) - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- [4\(g\)-2](#) - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- [4\(g\)-3](#) - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- [4\(h\)](#) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [4\(i\)](#) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [4\(j\)](#) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [4\(k\)-1](#) - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- [4\(k\)-2](#) - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)

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- [4\(k\)-3](#) - Supplemental Indenture No. 4, dated as of March 15, 2013, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)
- [4\(l\)](#) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- [4\(m\)](#) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- [4\(n\)-1](#) - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(n\)-2](#) - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(n\)-3](#) - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(n\)-4](#) - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- [4\(n\)-5](#) - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated September 28, 2015)
- [4\(n\)-6](#) - Supplemental Indenture No. 5, dated as of August 1, 2016, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- [4\(o\)-1](#) - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(o\)-2](#) - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(o\)-3](#) - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(o\)-4](#) - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- [4\(o\)-5](#) - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 28, 2015)
- [4\(o\)-6](#) - Supplemental Indenture No. 5, dated as of September 1, 2016, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)
- [4\(o\)-7](#) - Supplemental Indenture No. 6, dated as of May 15, 2017, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)

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- [4\(p\)-1](#) - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(p\)-2](#) - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(p\)-3](#) - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- [4\(q\)-1](#) - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(q\)-2](#) - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(r\)-1](#) - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(r\)-2](#) - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(s\)-1](#) - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(s\)-2](#) - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(t\)-1](#) - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(t\)-2](#) - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(u\)-1](#) - 2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(u\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(v\)-1](#) - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- [4\(v\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(w\)](#) - 2016 Series A Carroll County Loan Agreement dated as of August 1, 2016 between Kentucky Utilities Company and the County of Carroll, Kentucky (Exhibit 4(a) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- [4\(x\)-1](#) - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(x\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(y\)-1](#) - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(y\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(z\)-1](#) - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(z\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(aa\)-1](#) - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(aa\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(bb\)-1](#) - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(bb\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(cc\)-1](#) - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(cc\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- [4\(dd\)-1](#) - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(dd\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ee\)-1](#) - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ee\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ff\)-1](#) - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ff\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(gg\)](#) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(hh\)-1](#) - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(hh\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ii\)-1](#) - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ii\)-2](#) - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- [4\(ji\)](#) - 2016 Series A Trimble County Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)

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- [4\(kk\)](#) - Trust Deed, dated November 26, 2010, between Central Networks East plc and Central Networks West plc, the Issuers, and Deutsche Trustee Company Limited relating to Central Networks East plc and Central Network West plc £3 billion Euro Medium Term Note Programme (Exhibit 4(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- [4\(ll\)-1](#) - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- [4\(ll\)-2](#) - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- [4\(ll\)-3](#) - Second Supplemental Indenture, dated as of October 30, 2014, to said Indenture (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- [4\(mm\)-1](#) - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No.1-11459) dated May 17, 2011)
- [4\(mm\)-2](#) - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- [4\(mm\)-3](#) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 9, 2016 (Exhibit 4(oo)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- [4\(mm\)-4](#) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- [4\(nn\)](#) - Trust Deed constituting £500 million 3.625% Senior Unsecured Notes due 2023, dated November 6, 2015, by and among Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 6, 2015)
- [4\(oo\)](#) - 2017 Series A Trimble County Loan Agreement, dated as of June 1, 2017, by and between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- [4\(pp\)](#) - Subscription Agreement, dated November 14, 2017, by and among Western Power Distribution(South West) plc as Issuer, HSBC Bank plc, Mizuho International plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander, S.A., Barclays Bank PLC, Lloyds Bank plc, Merrill Lynch International, MUFG Securities EMEA plc and RBC Europe Limited. (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 14, 2017).
- [10\(a\)](#) - \$75 million Revolving Credit Agreement, dated as of October 30, 2013, among LG&E and KU Energy LLC, the Lenders from time to time party thereto, and PNC Bank, National Association, as the Administrative Agent and the Issuing Lender, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, Fifth Third Bank, as Syndication Agent, and Central Bank & Trust Company, as Documentation Agent (Exhibit 10(ii) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)

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- [10\(b\)](#) - \$300 million Revolving Credit Agreement, dated as of November 12, 2013, among PPL Capital Funding, Inc., as borrower, PPL Corporation, as Guarantor, the Lenders party thereof and PNC Bank National Association, as Administrative Agent, and Manufactures and Traders Trust as Syndication Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- [10\(c\)-1](#) - \$150 million Revolving Credit Agreement, dated as of March 26, 2014, among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor and The Bank of Nova Scotia, as Administrative Agent, Issuing Lender and Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2014)
- [10\(c\)-2](#) - First Amendment to said Revolving Credit Agreement, dated as of March 17, 2015 (Exhibit 10(c)-2 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2015)
- [10\(c\)-3](#) - Second Amendment to said Revolving Credit Agreement, dated as of March 17, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended June 30, 2016)
- [10\(c\)-4](#) - Third Amendment to said Revolving Credit Agreement, dated as of March 17, 2017, (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended March 31, 2017)
- [10\(d\)](#) - Employee Matters Agreement, among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- [10\(e\)-1](#) - \$300 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among PPL Electric Utilities Corporation, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(e) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2014)
- [10\(e\)-2](#) - Notice of Automatic Extension, dated as of September 29, 2014, to said Amended and Restated Credit Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2014)
- [10\(e\)-3](#) - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [10\(e\)-4](#) - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(e)-4 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2016)
- [*10\(e\)-5](#) - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018
- [10\(f\)-1](#) - \$300 million Revolving Credit Agreement, dated as of July 28, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [10\(f\)-2](#) - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)

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- [10\(f\)-3](#) - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(f)-3 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2016)
- [*10\(f\)-4](#) - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018
- [10\(g\)-1](#) - \$400 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [10\(g\)-2](#) - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [10\(g\)-3](#) - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(g)-3 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2016)
- [*10\(g\)-4](#) - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018
- [10\(h\)-1](#) - \$500 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [10\(h\)-2](#) - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- [10\(h\)-3](#) - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(h)-3 to PPL Corporation Form 10-K Report (File No. 1-1459) for the year ended December 31, 2016)
- [*10\(h\)-4](#) - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018
- [10\(i\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank, Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [10\(j\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)

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- [10\(k\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 (Exhibit 10(j) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [10\(l\)-1](#) - \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party hereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (Exhibit 10.1 to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated October 2, 2014)
- [10\(l\)-2](#) - Amendment No. 1 to said Letter of Credit Agreement, dated as of August 1, 2017 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended June 30, 2017)
- [10\(m\)](#) - £210 million Multicurrency Revolving Credit Facility Agreement, dated January 13 2016, among Western Power Distribution plc and HSBC Bank PLC and Mizuho Bank, Ltd. as Joint Coordinators and Bookrunners, Mizuho Bank, Ltd. as Facility Agent and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 19, 2016)
- [10\(n\)](#) - £100,000,000 Term Loan Agreement, dated May 24, 2016, between Western Power Distribution (East Midlands) plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- [10\(o\)](#) - £50,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of October 11, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended September 30, 2016)
- [10\(p\)](#) - £230,000,000 Term Loan Agreement, dated March 28, 2017, between Western Power Distribution plc and HSBC Bank, PLC and Mizuho Bank, Ltd., as Mandated Lead Arrangers, and Mizuho Bank, Ltd., as Facility Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 5, 2017)
- [10\(q\)-1](#) - £20,000,000 Uncommitted Facility Letter entered into between Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc and BNP Paribas, dated as of January 23, 2014 (Exhibit 10(a)-1 to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended September 30, 2017)
- [10\(q\)-2](#) - Amendment to said Uncommitted Facility Letter, dated as of July 28, 2017 (Exhibit 10(a)-2 to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended September 30, 2017)
- [10\(r\)](#) - \$200,000,000 Term Loan Credit Agreement, dated as of October 26, 2017, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party hereto and U.S. Bank National Association, as Administrative Agent (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-1459) for the quarter ended September 30, 2017)
- [\[10\(s\)-1](#) - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- [\[10\(s\)-2](#) - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- [\[10\(s\)-3](#) - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)

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- [\[10\(s\)-4](#) - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- [\[10\(s\)-5](#) - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [\[10\(s\)-6](#) - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- [\[10\(s\)-7](#) - Amendment No. 6 to said Directors Deferred Compensation Plan, dated as of April 15, 2015 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)
- [\[10\(t\)-1](#) - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[10\(t\)-2](#) - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[10\(t\)-3](#) - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)
- [\[10\(t\)-4](#) - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(t\)-5](#) - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(u\)-1](#) - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [\[10\(u\)-2](#) - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- [\[10\(u\)-3](#) - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [\[10\(u\)-4](#) - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [\[10\(u\)-5](#) - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)

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- [\[10\(u\)-6](#) - Amendment No. 5 to said Executive Deferred Compensation Plan, dated as of May 8, 2014 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [\[10\(u\)-7](#) - Amendment No. 6 to said Executive Deferred Compensation Plan, dated as of December 16, 2015 (Exhibit [10(q)-7 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- [\[10\(v\)-1](#) - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [\[10\(v\)-2](#) - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- [\[10\(v\)-3](#) - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- [\[10\(v\)-4](#) - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [\[10\(v\)-5](#) - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [\[10\(v\)-6](#) - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- [\[10\(w\)-1](#) - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- [\[10\(w\)-2](#) - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- [\[10\(w\)-3](#) - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [\[10\(w\)-4](#) - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(w\)-5](#) - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- [\[10\(w\)-6](#) - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- [\[10\(w\)-7](#) - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- [\[10\(w\)-8](#) - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)

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- [\[10\(w\)-9](#) - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- [\[10\(x\)-1](#) - Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)
- [\[10\(x\)-2](#) - Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- [\[10\(x\)-3](#) - Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10(ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [\[10\(x\)-4](#) - Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(x\)-5](#) - Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10(cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [\[10\(x\)-6](#) - Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- [\[10\(y\)](#) - Short-term Incentive Plan (Annex B to Proxy Statement of PPL Corporation, dated April 12, 2016)
- [\[10\(z\)](#) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [\[10\(aa\)](#) - Form of Retention Agreement entered into between PPL Corporation and Gregory N. Dudkin (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(bb\)-1](#) - Form of Severance Agreement entered into between PPL Corporation and William H. Spence (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [\[10\(bb\)-2](#) - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- [\[10\(cc\)](#) - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Gregory N. Dudkin, Joanne H. Raphael, Vincent Sorgi and Victor A. Staffieri (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- [\[10\(dd\)-1](#) - PPL Corporation Amended and Restated 2012 Stock Incentive Plan (Annex B to Definitive Proxy Statement on Schedule 14A filed on April 5, 2017)
- [\[10\(dd\)-2](#) - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan (Exhibit 10(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)

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- [\[\]10\(dd\)-3](#) - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan (Exhibit 10(tt)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[\]10\(dd\)-4](#) - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan (Exhibit 10(tt)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- *[\[\]10\(dd\)-5](#) - Form of Total Shareholder Return Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan
- *[\[\]10\(dd\)-6](#) - Form of Return on Equity Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan
- [\[\]10\(ee\)](#) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- [\[\]10\(ff\)](#) - Form of Western Power Distribution Phantom Stock Option Award Agreement for stock option awards under the Western Power Distribution Long-Term Incentive Plan (Exhibit []10(bbb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2014)
- [\[\]10\(gg\)](#) - Service Agreement (including Change in Control Agreement as Exhibit A), dated March 16, 2015, between Western Power Distribution (South West) plc and Robert A. Symons (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)
- [\[\]10\(hh\)](#) - Form of Grant Letter dated May 29, 2015 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 1, 2015)
- *[12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *[12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *[12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *[12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *[12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
- *[21](#) - Subsidiaries of PPL Corporation
- *[23\(a\)](#) - Consent of Deloitte & Touche LLP - PPL Corporation
- *[23\(b\)](#) - Consent of Deloitte & Touche LLP - PPL Electric Utilities Corporation
- *[23\(c\)](#) - Consent of Deloitte & Touche LLP - LG&E and KU Energy LLC

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- [*23\(d\)](#) - Consent of Deloitte & Touche LLP - Louisville Gas and Electric Company
- [*23\(e\)](#) - Consent of Deloitte & Touche LLP - Kentucky Utilities Company
- [*23\(f\)](#) - Consent of Ernst & Young LLP - PPL Corporation
- [*23\(g\)](#) - Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
- [*23\(h\)](#) - Consent of Ernst & Young LLP - LG&E and KU Energy LLC
- [*23\(i\)](#) - Consent of Ernst & Young LLP - Louisville Gas and Electric Company
- [*23\(j\)](#) - Consent of Ernst & Young LLP - Kentucky Utilities Company
- [*24](#) - Power of Attorney
- [*31\(a\)](#) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(b\)](#) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(c\)](#) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(d\)](#) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(e\)](#) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(f\)](#) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(g\)](#) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(h\)](#) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(i\)](#) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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*31(j)	- Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32(a)	- Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(b)	- Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(c)	- Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(d)	- Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(e)	- Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99(a)	- PPL Corporation and Subsidiaries Long-term Debt Schedule
101.INS	- XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	- XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	- XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	- XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation
(Registrant)

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Vincent Sorgi

Vincent Sorgi -
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Stephen K. Breininger

Stephen K. Breininger -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Rodney C. Adkins
John W. Conway
Steven G. Elliott
Venkata Rajamannar Madabhushi
Craig A. Rogerson

William H. Spence
Natica von Althann
Keith H. Williamson
Phoebe A. Wood
Armando Zagalo de Lima

/s/ William H. Spence

William H. Spence, Attorney-in-fact

Date: February 22, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation
(Registrant)

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Gregory N. Dudkin

Gregory N. Dudkin -
President
(Principal Executive Officer)

/s/ Marlene C. Beers

Marlene C. Beers -
Controller
(Principal Financial Officer and Principal Accounting Officer)

Directors:

/s/ Gregory N. Dudkin

Gregory N. Dudkin

/s/ Vincent Sorgi

Vincent Sorgi

/s/ Joanne H. Raphael

Joanne H. Raphael

/s/ William H. Spence

William H. Spence

Date: February 22, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 22, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 22, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Kent W. Blake
Kent W. Blake

/s/ Victor A. Staffieri
Victor A. Staffieri

/s/ Vincent Sorgi
Vincent Sorgi

/s/ Paul W. Thompson
Paul W. Thompson

/s/ William H. Spence
William H. Spence

Date: February 22, 2018

PPL Corporation
Amended and Restated 2012 Stock Incentive Plan
Performance Unit Agreement

PERFORMANCE UNIT AGREEMENT (the "Agreement") dated as of the Date of Grant set forth in the Notice of Grant (as defined below), by and between PPL Corporation, a Pennsylvania corporation (the "Company"), and the participant whose name appears on the Notice of Grant (the "Participant").

1. Grant of Stock Based Award. Subject to the terms and conditions of this Agreement (including vesting conditions):
 - (a) The Company hereby evidences and confirms its grant to the Participant, effective as of the Date of Grant, of the number of stock based units contingent upon Company financial performance (the "Performance Units") specified in the Notice of Grant attached hereto as Exhibit A and made a part hereof ("Notice of Grant").
 - (b)
 - (i) If on any date while the Performance Units are outstanding hereunder the Company shall pay any cash dividend on its shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, a "Cash Dividend Equivalent Award" which shall represent a future contingent right to a number of shares of Common Stock (rounded down to the nearest whole share) with a current Fair Market Value equal to the product of (x) the number of "Total Performance Units" (as defined below) held by the Participant hereunder as of the related dividend record date, multiplied by (y) the amount of such cash dividend per share of Common Stock. Any Cash Dividend Equivalent Award shall be subject to the same payment terms and conditions as the corresponding Performance Units to which they relate.
 - (ii) If on any date while the Performance Units are outstanding hereunder the Company shall pay any dividend on its shares of Common Stock in the form of shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, the contingent right to a future number of shares of Common Stock, equal to the product of (x) the number of Total Performance Units held by the Participant hereunder as of the related dividend record date, multiplied by (y) the number of shares of Common Stock (including any fraction thereof) payable as a dividend on one share of Common Stock, rounded down to the nearest whole Unit.

(iii) At any point in time, the total number of shares of Common Stock of all Performance Units, Cash Dividend Equivalent Awards, and rights to the stock dividends, if any, referred to in Section 1(b)(ii) above, shall be defined as "Total Performance Units."

(c) This Agreement and the Total Performance Units granted hereunder are subject to all of the terms and conditions of the PPL Corporation Amended and Restated 2012 Stock Incentive Plan (the "Plan"), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan.

2. Vesting of Total Performance Units.

(a) Vesting.

(i) Except as otherwise provided in Section 2(b) or Section 2(c), or Section 2(d), subject to the achievement of the performance goals (the "Goals") established by the Committee for the "Performance Period" (as set forth in the Notice of Grant), and to the continued Employment of the Participant through the conclusion of the Performance Period, the Total Performance Units will become vested based on the extent to which the Goals are satisfied at the conclusion of the Performance Period, as and to the extent set forth in the Notice of Grant (the percentage of the Total Performance Units which so vest being referred to as the "Vesting Percentage").

(ii) Promptly after the conclusion of the Performance Period, the Committee will determine whether the Goals have been satisfied, and will certify in writing as to whether such Goals were in fact satisfied. Based on the Committee's determination and certification, (A) the Total Performance Units will vest as and to the extent set forth in the Notice of Grant, and (B) the portion of the Total Performance Units, if any, that do not vest in accordance with the foregoing shall be immediately forfeited and cancelled by the Company without any consideration.

(b) Termination of Employment.

(i) General. Except as provided in Section 2(b)(ii) below, in the event of the Participant's termination of Employment for any reason prior to the conclusion of the Performance Period, the Participant's Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

(ii) Death, Disability, Retirement.

(A) In the event of the Participant's termination of Employment with the Company and its Affiliates due to death, Disability or Retirement prior to the conclusion of the Performance Period, the Total Performance Units shall remain outstanding and eligible for

vesting through the conclusion of the Performance Period (or, if applicable, an earlier Change in Control (as defined below)) as described in Section 2(a) above; provided, that, in such event, only a pro rata portion or vested portion on Retirement (as described below in this Section 2(b)(ii)(B)) of the Total Performance Units shall be eligible to become vested, and, to the extent so vested, shall be settled and paid as provided in Section 3; and

- (B) Subject to Section 2(c) below (in the event of a Change in Control following termination of Employment due to death, Disability or Retirement and prior to the conclusion of the Performance Period), the pro rata portion described in clause (A) above for Participant's death or Disability shall be determined by multiplying the number of Total Performance Units that would have vested had the Participant's Employment continued through the conclusion of the Performance Period, based on actual achievement of the Goals, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date of the Participant's termination of Employment, and the denominator of which is the number of pay periods in the Performance Period; but in the event of Participant's Retirement one year or more from the commencement of the Performance Period, Total Performance Units shall be vested and paid as if Participant's Employment had continued through the conclusion of the Performance Period, however a Participant's Retirement prior to one year of the commencement of the Performance Period shall cause immediate forfeiture as provided in Section 2(b)(i); and
- (C) Upon the determination of the number of Total Performance Units pursuant to Section 2(b)(ii) that shall vest, all remaining unvested Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

For purposes of this Agreement, "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55.

- (c) Change in Control. Notwithstanding the foregoing, in the event of a Change in Control prior to the conclusion of the Performance Period while a Participant remains employed with the Company and its Affiliates (or following termination of

Employment due to death, Disability or Retirement), (x) the Performance Period shall be deemed to conclude immediately prior to the Change in Control, and (y) a pro rata portion of all then unvested Total Performance Units will become immediately vested as though there had been achievement of Goals satisfying the Target Award (as defined in Exhibit A), such pro rata portion determined by multiplying the number of Total Performance Units, in each case represented by the Target Award, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date immediately prior to the Change in Control (or, if earlier, the date of the Participant's termination of Employment due to death, Disability or Retirement, consistent with Section 2(b)(ii) above), and the denominator of which is the number of pay periods in the original Performance Period (i.e., if the Performance Period had not terminated upon a Change in Control). All remaining Total Performance Units that do not so vest in accordance with the foregoing provisions of this Section 2(c) shall be immediately forfeited and cancelled by the Company without consideration.

(d) No shares of Common Stock will be issued or issuable (or other consideration be payable) with respect to any portion of the Total Performance Units that do not vest in accordance with the foregoing provisions of Section 2. All Performance Units and shares of Common Stock issued in connection with Performance Units are subject to forfeiture in accordance with the PPL Corporation Policy Regarding Recoupment of Executive Compensation.

3. Payment Date. Subject to Section 7(c), on the Payment Date (as defined below), the Company shall issue to the Participant one share of Common Stock in settlement of the Total Performance Units, if any, that vest as provided in Section 2. The "Payment Date" upon which this Award shall be settled and paid shall occur as soon as practicable following the conclusion of the Performance Period and the date that the Committee determines and certifies that the Goals with respect to the Performance Period have been satisfied (but in no event later than 2½ months after the conclusion of the Performance Period); provided, however, in the case of settlement as a result of a Change in Control pursuant to Section 2(c), the Payment Date shall occur as of immediately prior to the Change in Control and provided, further, no payment shall be made to the Participant following the Participant's termination of Employment for any reason other than death or a Change in Control until six months after the date of termination of Employment.

No fractional shares of Common Stock shall be issued. Fractional shares shall be settled through a cash payment based on the Fair Market Value of the Common Stock on the Payment Date.

4. Securities Law Compliance. Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Common Stock acquired upon settlement of the Total Performance Units unless such shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares, and Participant may not sell the shares of Common Stock, if the

Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant's Rights with Respect to the Total Performance Units.

- (a) Restrictions on Transferability. The Total Performance Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including, without limitation, by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death; provided that the deceased Participant's beneficiary or representative of the Participant's estate shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan, as if such beneficiary or the estate were the Participant.
- (b) No Rights as Stockholder. The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Common Stock corresponding to the Total Performance Units granted hereby, unless and until shares of Common Stock are actually issued to the Participant in respect thereof.

6. Adjustment in Capitalization. In the event of any change in the outstanding Common Stock by reason of any recapitalization, combination or exchange of shares or other similar changes in the Common Stock, appropriate adjustment shall be made by the Committee, in accordance with Section 10 of the Plan.

7. Miscellaneous.

- (a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns, any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.
- (b) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Affiliates to terminate the Participant's Employment at any time, or confer upon the Participant any right to continue in the employ of the Company or any of its Affiliates.
- (c) Tax Withholding. The Company and its Affiliates shall have the right to deduct from all amounts payable to the Participant (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the vested Total Performance Units, as may be necessary in the opinion of the Company to satisfy tax withholding required by law to be withheld. Unless otherwise determined by the Committee, the Company will meet such obligations with respect to the settlement and payment of any vested Total Performance Units by having the Company withhold the least number of whole shares of

Common Stock having a Fair Market Value sufficient to satisfy the amount required to be withheld in respect of settlement and payment of the vested Total Performance Units.

- (d) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the Commonwealth of Pennsylvania regardless of the application of rules of conflict of laws that would apply to the laws of any other jurisdiction.
- (e) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation. By entering into this Agreement and accepting the Total Performance Unit Award evidenced hereby, the Participant acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the Award does not create any contractual or other right to receive future grants of Awards; (iii) that participation in the Plan is voluntary; (iv) that the value of the Total Performance Unit Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (v) that the future value of the shares of Common Stock is unknown and cannot be predicted with certainty.
- (f) Headings and Captions. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.
- (g) Amendments. The terms of this Agreement may be amended from time to time by the Committee in its sole discretion in any manner it deems appropriate; provided that no such amendment shall, without the Participant's consent, materially diminish the Participant's rights under this Agreement.
- (h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

Sincerely,
PPL Corporation

By: _____

Exhibit A

PPL CORPORATION
AMENDED AND RESTATED 2012 STOCK INCENTIVE PLAN

PERFORMANCE UNIT AWARD - NOTICE OF GRANT

The number of shares of PPL Common Stock that may be earned and become vested under this Performance Unit Award shall be based on the achievement of pre-established performance goals as set by the Committee for the Performance Period, based on the following:

Name of Participant: Participant Name

Date of Grant: Grant Date

Total Number of Performance Units Awarded (subject to vesting): X,XXX shares of Common Stock

Performance Period: [Performance Period begin and end date]

Performance Measure: Total Shareholder Return (“TSR”), meaning stock price growth, plus dividends paid, divided by stock price at start of period:

$$[\text{Change in Stock Price} + \text{Dividends Paid}] \div \text{Beginning Stock Price}$$

The “Change in Stock Price” represents the Ending Stock Price minus the Beginning Stock Price, adjusted for the effects of any common stock splits. “Dividends Paid” means the total of all dividends paid on one share of the underlying common stock during the Performance Period. “Beginning Stock Price” means the average of the closing prices of the stock on the first 20 trading days in the Performance Period, adjusted for the effect of any common stock splits. “Ending Stock Price” means the average of the closing prices of the stock on the last 20 trading days of the Performance Period.

Peer Index: The Philadelphia Utility Index (UTY)

Earnout Schedule: PPL’s relative TSR vs. TSR for companies in the Peer Index

<u>Percentile Rank</u> (PPL TSR performance, relative to companies in Peer Index)	<u>Payout</u> (Expressed as a % of Target Award)
85 th Percentile or above	200% (i.e., the Maximum Award)
50 th Percentile	100% (i.e., the Target Award)
25 th Percentile	25%
Below 25 th Percentile	0%

** Full interpolation between percentile points between the 25th and 85th percentile.

PPL Corporation
Amended and Restated 2012 Stock Incentive Plan
Performance Unit Agreement

PERFORMANCE UNIT AGREEMENT (the "Agreement") dated as of the Date of Grant set forth in the Notice of Grant (as defined below), by and between PPL Corporation, a Pennsylvania corporation (the "Company"), and the participant whose name appears on the Notice of Grant (the "Participant").

1. Grant of Stock Based Award. Subject to the terms and conditions of this Agreement (including vesting conditions):
 - (a) The Company hereby evidences and confirms its grant to the Participant, effective as of the Date of Grant, of the number of stock based units contingent upon Company financial performance (the "Performance Units") specified in the Notice of Grant attached hereto as Exhibit A and made a part hereof ("Notice of Grant").
 - (b)
 - (i) If on any date while the Performance Units are outstanding hereunder the Company shall pay any cash dividend on its shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, a "Cash Dividend Equivalent Award" which shall represent a future contingent right to a number of shares of Common Stock (rounded down to the nearest whole share) with a current Fair Market Value equal to the product of (x) the number of "Total Performance Units" (as defined below) held by the Participant hereunder as of the related dividend record date, multiplied by (y) the amount of such cash dividend per share of Common Stock. Any Cash Dividend Equivalent Award shall be subject to the same payment terms and conditions as the corresponding Performance Units to which they relate.
 - (ii) If on any date while the Performance Units are outstanding hereunder the Company shall pay any dividend on its shares of Common Stock in the form of shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, the contingent right to a future number of shares of Common Stock, equal to the product of (x) the number of Total Performance Units held by the Participant hereunder as of the related dividend record date, multiplied by (y) the number of shares of Common Stock (including any fraction thereof) payable as a dividend on one share of Common Stock, rounded down to the nearest whole Unit.

- (iii) At any point in time, the total number of shares of Common Stock of all Performance Units, Cash Dividend Equivalent Awards, and rights to the stock dividends, if any, referred to in Section 1(b)(ii) above, shall be defined as "Total Performance Units."
- (c) This Agreement and the Total Performance Units granted hereunder are subject to all of the terms and conditions of the PPL Corporation Amended and Restated 2012 Stock Incentive Plan (the "Plan"), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan.

2. Vesting of Total Performance Units.

(a) Vesting.

- (i) Except as otherwise provided in Section 2(b) or Section 2(c), or Section 2(d), subject to the achievement of the performance goals (the "Goals") established by the Committee for the "Performance Period" (as set forth in the Notice of Grant), and to the continued Employment of the Participant through the conclusion of the Performance Period, the Total Performance Units will become vested based on the extent to which the Goals are satisfied at the conclusion of the Performance Period, as and to the extent set forth in the Notice of Grant (the percentage of the Total Performance Units which so vest being referred to as the "Vesting Percentage").
- (ii) Promptly after the conclusion of the Performance Period, the Committee will determine whether the Goals have been satisfied, and will certify in writing as to whether such Goals were in fact satisfied. Based on the Committee's determination and certification, (A) the Total Performance Units will vest as and to the extent set forth in the Notice of Grant, and (B) the portion of the Total Performance Units, if any, that do not vest in accordance with the foregoing shall be immediately forfeited and cancelled by the Company without any consideration.

(b) Termination of Employment.

- (i) General. Except as provided in Section 2(b)(ii) below, in the event of the Participant's termination of Employment for any reason prior to the conclusion of the Performance Period, the Participant's Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.
- (ii) Death, Disability, Retirement.
 - (A) In the event of the Participant's termination of Employment with the Company and its Affiliates due to death, Disability or Retirement prior to the conclusion of the Performance Period, the Total Performance Units shall remain outstanding and eligible for

vesting through the conclusion of the Performance Period (or, if applicable, an earlier Change in Control (as defined below)) as described in Section 2(a) above and to the extent so vested, shall be settled and paid as provided in Section 3; and

- (B) Upon the determination of the number of Total Performance Units pursuant to Section 2(b)(ii) that shall vest, all remaining unvested Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

For purposes of this Agreement, "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55.

- (c) Change in Control. Notwithstanding the foregoing, in the event of a Change in Control prior to the conclusion of the Performance Period while a Participant remains employed with the Company and its Affiliates (or following termination of Employment due to death, Disability or Retirement), (x) the Performance Period shall be deemed to conclude immediately prior to the Change in Control, and (y) a pro rata portion of all then unvested Total Performance Units will become immediately vested as though there had been achievement of Goals satisfying the Target Award (as defined in Exhibit A), such pro rata portion determined by multiplying the number of Total Performance Units, in each case represented by the Target Award, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date immediately prior to the Change in Control (or, if earlier, the date of the Participant's termination of Employment due to death, Disability or Retirement, consistent with Section 2(b)(ii) above), and the denominator of which is the number of pay periods in the original Performance Period (i.e., if the Performance Period had not terminated upon a Change in Control). All remaining Total Performance Units that do not so vest in accordance with the foregoing provisions of this Section 2(c) shall be immediately forfeited and cancelled by the Company without consideration.
- (d) No shares of Common Stock will be issued or issuable (or other consideration be payable) with respect to any portion of the Total Performance Units that do not vest in accordance with the foregoing provisions of Section 2. All Performance Units and shares of Common Stock issued in connection with Performance Units are subject to forfeiture in accordance with the PPL Corporation Policy Regarding Recoupment of Executive Compensation.

3. Payment Date. Subject to Section 7(c), on the Payment Date (as defined below), the Company shall issue to the Participant one share of Common Stock in settlement of the Total Performance Units, if any, that vest as provided in Section 2. The "Payment Date" upon which this Award shall be settled and paid shall occur as soon as practicable following the conclusion of the Performance Period and the date that the Committee determines and certifies that the Goals with respect to the Performance Period have been satisfied (but in no event later than 2½ months after the conclusion of the Performance Period); provided, however, in the case of settlement as a result of a Change in Control pursuant to Section 2(c), the Payment Date shall occur as of immediately prior to the Change in Control and provided, further, no payment shall be made to the Participant following the Participant's termination of Employment for any reason other than death or a Change in Control until six months after the date of termination of Employment.

No fractional shares of Common Stock shall be issued. Fractional shares shall be settled through a cash payment based on the Fair Market Value of the Common Stock on the Payment Date.

4. Securities Law Compliance. Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Common Stock acquired upon settlement of the Total Performance Units unless such shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares, and Participant may not sell the shares of Common Stock, if the Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant's Rights with Respect to the Total Performance Units.

- (a) Restrictions on Transferability. The Total Performance Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including, without limitation, by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death; provided that the deceased Participant's beneficiary or representative of the Participant's estate shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan, as if such beneficiary or the estate were the Participant.
- (b) No Rights as Stockholder. The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Common Stock corresponding to the Total Performance Units granted hereby, unless and until shares of Common Stock are actually issued to the Participant in respect thereof.

6. Adjustment in Capitalization. In the event of any change in the outstanding Common Stock by reason of any recapitalization, combination or exchange of shares or other

similar changes in the Common Stock, appropriate adjustment shall be made by the Committee, in accordance with Section 10 of the Plan.

7. Miscellaneous.

- (a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns, any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.
- (b) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Affiliates to terminate the Participant's Employment at any time, or confer upon the Participant any right to continue in the employ of the Company or any of its Affiliates.
- (c) Tax Withholding. The Company and its Affiliates shall have the right to deduct from all amounts payable to the Participant (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the vested Total Performance Units, as may be necessary in the opinion of the Company to satisfy tax withholding required by law to be withheld. Unless otherwise determined by the Committee, the Company will meet such obligations with respect to the settlement and payment of any vested Total Performance Units by having the Company withhold the least number of whole shares of Common Stock having a Fair Market Value sufficient to satisfy the amount required to be withheld in respect of settlement and payment of the vested Total Performance Units.
- (d) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the Commonwealth of Pennsylvania regardless of the application of rules of conflict of laws that would apply to the laws of any other jurisdiction.
- (e) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation. By entering into this Agreement and accepting the Total Performance Unit Award evidenced hereby, the Participant acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the Award does not create any contractual or other right to receive future grants of Awards; (iii) that participation in the Plan is voluntary; (iv) that the value of the Total Performance Unit Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (v) that the future value of the shares of Common Stock is unknown and cannot be predicted with certainty.

- (f) Headings and Captions. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.
- (g) Amendments. The terms of this Agreement may be amended from time to time by the Committee in its sole discretion in any manner it deems appropriate; provided that no such amendment shall, without the Participant's consent, materially diminish the Participant's rights under this Agreement.
- (h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

Sincerely,
PPL Corporation

By: _____

ROE

Exhibit A

PPL CORPORATION
AMENDED AND RESTATED 2012 STOCK INCENTIVE PLAN

PERFORMANCE UNIT AWARD - NOTICE OF GRANT

The number of shares of PPL Common Stock that may be earned and become vested under this Performance Unit Award shall be based on the achievement of pre-established performance goals as set by the Committee for the Performance Period, based on the following:

Name of Participant: Participant Name

Date of Grant: Grant date

Total Number of Performance Units Awarded (subject to vesting): X,XXX shares of Common Stock

Performance Period: [Performance Period begin and end dates]

Performance Measure: Return on Equity ("ROE") will be calculated based on the average of the annual ROE for each year of the 3 year-performance period for PPL Corporation.

Annual ROE is calculated by taking earnings from ongoing operations of PPL Corporation, divided by the average total equity, adjusted in the event of a material divestiture or acquisition;

- Average total equity will be the average of the beginning and ending total equity of the calendar year;
- Earnings from ongoing operations exclude special items.

In the event of a material divestiture, total equity and ongoing earnings will be adjusted for the divested business by using the most recent preceding four quarters in the performance period for the divested business prior to divestiture for the remainder of the performance period, or a fewer number of most recent quarters should the divestiture occur prior to completion of four quarters in that performance period.

In the event of an acquisition, total equity and earnings from ongoing operations for the new acquisition will be excluded from the ROE calculation.

<u>ROE Achieved</u>	<u>Payout</u> (Expressed as a % of Target Award)**
14%	200% (i.e., the Maximum Award)
10%	100% (i.e., the Target Award)
8%	50%
Below 8%	0%

**Full interpolation between ROE's of 8% and 14%. If PPL's credit rating should drop below investment grade, the Maximum Award shall not exceed 100% payout.

COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

This **COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT** (this “*Agreement*”) dated as of January 26, 2018, is entered into by and among **PPL ELECTRIC UTILITIES CORPORATION**, a Pennsylvania corporation (“*Borrower*”), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the “*Extending Lenders*”) and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the “*Administrative Agent*”), Swingline Lender and Issuing Lender. Capitalized terms used and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the “*Existing Credit Agreement*” and as amended hereby, the “*Credit Agreement*”).

B. The Borrower desires to amend the Existing Credit Agreement (i) to change the existing Termination Date, effective as of the Extension Date (as defined below), from January 27, 2022 to January 26, 2023 and (ii) to amend the definition of “Change of Control” in Section 1.01 of the Existing Credit Agreement, and the Lenders party hereto agree to such amendments. Pursuant to Section 2.08(d) of the Credit Agreement, Borrower has requested an extension of the Termination Date (the “*Commitment Extension*”) of the Commitments from January 27, 2022 to January 26, 2023, effective on the date hereof (the “*Extension Date*”), provided that the Administrative Agent determines that the conditions specified in or pursuant to Section 2 of this Agreement have been satisfied.

C. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 26, 2023, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the “*Current Termination Date*.”

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Extending Lender;
 - b) an Extension Letter;
 - c) a certificate of the Borrower dated the Extension Date and signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and

- iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the PUC and/or FERC, required to authorize the Commitment Extension are attached thereto and remain in full force and effect.
 - d) Opinions of (i) Pillsbury Winthrop Shaw Pittman LLP, counsel to the Borrower, and (ii) in-house counsel of the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 2(1)(c)(iii) which could restrain or prevent the Commitment Extension or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Extension.
- 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated December 15, 2017, between the Borrower and Wells Fargo Securities, LLC;
- 4) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by deleting the definition of “Termination Date” in its entirety and replacing it with the following:

“Termination Date” means the earlier to occur of (i) January 26, 2023 and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.”

4. Change of Control Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by amending the definition of “Change of Control” by inserting “,directly or indirectly,” immediately prior to “80% or more of the outstanding shares of the Voting Stock in the Borrower.” in clause (ii) thereof.

5. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

6. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAIN IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER CONFIRMS AND RATIFIES ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR

AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PPL ELECTRIC UTILITIES CORPORATION
a Pennsylvania corporation

By: /s/ Tadd J. Henninger

Name: Tadd J. Henninger

Title: Vice President and Treasurer

BANK OF AMERICA N.A.
as an Extending Lender

By: /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Extending Lender

By: /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis

Title: Director

CITIBANK, N.A.
as an Extending Lender

By: /s/ Richard D. Rivera

Name: Richard Rivera

Title: Vice President

MIZUHO BANK, LTD.
as an Extending Lender

By: /s/ Nelson Chang

Name: Nelson Chang

Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
as an Extending Lender

By: /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS
as an Extending Lender

By: /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

By: /s/ Theodore Sheen

Name: Theodore Sheen

Title: Director

**CANADIAN IMPERIAL BANK OF
COMMERCE, NEW YORK BRANCH**
as an Extending Lender

By: /s/ Gordon R. Eadon

Name: Gordon R. Eadon

Title: Authorized Signatory

By: /s/ Anju Abraham

Name: Anju Abraham

Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.
as an Extending Lender

By: /s/ Michael King
Name: Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS AG, STAMFORD BRANCH

as an Extending Lender

By: /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director
Banking Product Services, US

By: /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy

Name: James O'Shaughnessy

Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Thomas E. Redmond

Name: Thomas E. Redmond

Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$42,250,000	6.5%
Bank of America, N.A.	42,250,000	6.5%
JPMorgan Chase Bank, N.A.	42,250,000	6.5%
Barclays Bank PLC	42,250,000	6.5%
Citibank, N.A.	42,250,000	6.5%
Mizuho Bank, Ltd.	42,250,000	6.5%
The Bank of Nova Scotia	32,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd	32,500,000	5.0%
BNP Paribas	32,500,000	5.0%
Canadian Imperial Bank of Commerce	32,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	32,500,000	5.0%
Goldman Sachs Bank USA	32,500,000	5.0%
Morgan Stanley Bank, N.A.	32,500,000	5.0%
Royal Bank of Canada	32,500,000	5.0%
Suntrust Bank	32,500,000	5.0%
UBS AG, Stamford Branch	32,500,000	5.0%
U.S. Bank National Association	32,500,000	5.0%
The Bank of New York Mellon	19,500,000	3.0%
PNC Bank, National Association	19,500,000	3.0%
Total	\$650,000,000	100%

COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

This **COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT** (this “*Agreement*”) dated as of January 26, 2018, is entered into by and among **PPL CAPITAL FUNDING, INC.**, a Delaware corporation (“*Borrower*”), PPL Corporation, a Pennsylvania corporation (“*Guarantor*”), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the “*Extending Lenders*”) and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the “*Administrative Agent*”), Swingline Lender and Issuing Lender. Capitalized terms used and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, Guarantor, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the “*Existing Credit Agreement*” and as amended hereby, the “*Credit Agreement*”).

B. The Borrower desires to amend the Existing Credit Agreement (i) to change the existing Termination Date, effective as of the Extension Date (as defined below), from January 27, 2022 to January 26, 2023 and (ii) to amend the definition of “Change of Control” in Section 1.01 of the Existing Credit Agreement, and the Lenders party hereto agree to such amendments. Pursuant to Section 2.08(d) of the Credit Agreement, Borrower has requested an extension of the Termination Date (the “*Commitment Extension*”) of the Commitments from January 27, 2022 to January 26, 2023, effective on the date hereof (the “*Extension Date*”), provided that the Administrative Agent determines that the conditions specified in or pursuant to Section 2 of this Agreement have been satisfied.

C. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 26, 2023, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the “*Current Termination Date*.”

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower, Guarantor and each Extending Lender;
 - b) an Extension Letter;
 - c) a certificate of the Borrower dated the Extension Date and signed by an Authorized Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date

and except for the representations and warranties in Section 5.04(c), Section 5.05, Section 5.13 and Section 5.14(a) of the Credit Agreement; and

- iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Borrower to authorize the Commitment Extension.
- d) a certificate of the Guarantor dated the Extension Date signed by an Authorized Officer of the Guarantor, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Guarantor contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05, Section 5.13 and Section 5.14(a) of the Credit Agreement; and
 - iii) no authorization, consent or approval of any Governmental Authority is required to be obtained by the Guarantor to authorize the Commitment Extension.
- e) Opinions of (i) Pillsbury Winthrop Shaw Pittman LLP, counsel to each of the Loan Parties, and (ii) in-house counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated December 15, 2017, between the Borrower and Wells Fargo Securities, LLC;
- 3) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by deleting the definition of “Termination Date” in its entirety and replacing it with the following:

““**Termination Date**” means the earlier to occur of (i) January 26, 2023 and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.”

4. Change of Control Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by amending the definition of “Change of Control” by inserting “,directly or indirectly,” immediately prior to “80% or more of the outstanding shares of the Voting Stock in the Borrower.” in clause (ii) thereof.

5. Miscellaneous.

(a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.

(b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

6. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAIN IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER AND THE GUARANTOR CONFIRM AND RATIFY ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PPL CAPITAL FUNDING, INC.
a Delaware corporation

By: /s/ Tadd J. Henninger
Name: Tadd J. Henninger
Title: Vice President and Treasurer

PPL CORPORATION
a Pennsylvania corporation

By: /s/ Tadd J. Henninger
Name: Tadd J. Henninger
Title: Vice President and Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Swingline Lender and Issuing Lender

By: /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Frederick W. Price

Name: Frederick W. Price

Title: Managing Director

BANK OF AMERICA N.A.
as an Extending Lender

By: /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Extending Lender

By: /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis

Title: Director

CITIBANK, N.A.
as an Extending Lender

By: /s/ Richard D. Rivera
Name: Richard Rivera
Title: Vice President

MIZUHO BANK, LTD.
as an Extending Lender

By: /s/ Nelson Chang
Name: Nelson Chang
Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: /s/ David Dewar
Name: David Dewar
Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

as an Extending Lender

By: /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS
as an Extending Lender

By: /s/ Francis DeLaney
Name: Francis DeLaney
Title: Managing Director

By: /s/ Theodore Sheen
Name: Theodore Sheen
Title: Director

**CANADIAN IMPERIAL BANK OF
COMMERCE, NEW YORK BRANCH**
as an Extending Lender

By: /s/ Gordon R. Eadon
Name: Gordon R. Eadon
Title: Authorized Signatory

By: /s/ Anju Abraham
Name: Anju Abraham
Title: Authorized Signatory

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH**
as an Extending Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Authorized Signatory

By: /s/ Christopher Zybrick
Name: Christopher Zybrick
Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.
as an Extending Lender

By: /s/ Michael King
Name: Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

SUNTRUST BANK
as an Extending Lender

By: /s/ Arize Agumadu
Name: Arize Agumadu
Title: Vice President

UBS AG, STAMFORD BRANCH
as an Extending Lender

By: /s/ Craig Pearson
Name: Craig Pearson
Title: Associate Director
Banking Product Services, US

By: /s/ Darlene Arias
Name: Darlene Arias
Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy

Name: James O'Shaughnessy

Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$61,750,000	6.5%
Bank of America, N.A.	61,750,000	6.5%
JPMorgan Chase Bank, N.A.	61,750,000	6.5%
Barclays Bank PLC	61,750,000	6.5%
Citibank, N.A.	61,750,000	6.5%
Mizuho Bank, Ltd.	61,750,000	6.5%
The Bank of Nova Scotia	47,500,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,500,000	5.0%
BNP Paribas	47,500,000	5.0%
Canadian Imperial Bank of Commerce	47,500,000	5.0%
Credit Suisse AG, Cayman Islands Branch	47,500,000	5.0%
Goldman Sachs Bank USA	47,500,000	5.0%
Morgan Stanley Bank, N.A.	47,500,000	5.0%
Royal Bank of Canada	47,500,000	5.0%
Suntrust Bank	47,500,000	5.0%
UBS AG, Stamford Branch	47,500,000	5.0%
U.S. Bank National Association	47,500,000	5.0%
The Bank of New York Mellon	28,500,000	3.0%
PNC Bank, National Association	28,500,000	3.0%
Total	\$950,000,000	100%

COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT
(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

This **COMMITMENT EXTENSION AGREEMENT AND AMENDMENT NO. 3 TO CREDIT AGREEMENT** (this "*Agreement*") dated as of January 26, 2018, is entered into by and among **KENTUCKY UTILITIES COMPANY**, a Kentucky corporation and a Virginia Corporation ("*Borrower*"), the undersigned Lenders (as defined in the Credit Agreement) extending their Commitments (as defined in the Credit Agreement) (collectively, the "*Extending Lenders*") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Administrative Agent (in such capacity, the "*Administrative Agent*"), Swingline Lender and Issuing Lender. Capitalized terms used and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the "*Existing Credit Agreement*" and as amended hereby, the "*Credit Agreement*").

B. The Borrower desires to amend the Existing Credit Agreement (i) to change the existing Termination Date, effective as of the Extension Date (as defined below), from January 27, 2022 to January 26, 2023 and (ii) to amend the definition of "Change of Control" in Section 1.01 of the Existing Credit Agreement, and the Lenders party hereto agree to such amendments. Pursuant to Section 2.08(d) of the Credit Agreement, Borrower has requested an extension of the Termination Date (the "*Commitment Extension*") of the Commitments from January 27, 2022 to January 26, 2023, effective on the date hereof (the "*Extension Date*"), provided that the Administrative Agent determines that the conditions specified in or pursuant to Section 2 of this Agreement have been satisfied.

C. Each of the undersigned Extending Lenders has agreed to extend its Commitment in accordance with Schedule I hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Commitments. Effective as of the Extension Date, the Termination Date of the Commitment of each Extending Lender identified on Schedule I shall be extended to January 26, 2023, which, for purposes of Section 2.08(d)(ii) of the Credit Agreement, shall be the "*Current Termination Date*."

2. Conditions Precedent to Effectiveness of Commitment Extension. Subject to the satisfaction of the following conditions, the Commitment Extension shall be effective as of the Extension Date:

- 1) Administrative Agent shall have received:
 - a) counterparts of this Agreement, executed by Borrower and each Extending Lender;
 - b) an Extension Letter;
 - c) a certificate of the Borrower dated the Extension Date and signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and

- iii) any governmental, regulatory and third party approvals of any Governmental Authority, including, without limitation, the KPSC, TRA, VSCC and/or FERC, required to authorize the Commitment Extension are attached thereto and remain in full force and effect.
 - d) Opinions of (i) Pillsbury Winthrop Shaw Pittman LLP, counsel to the Borrower, and (ii) in-house counsel of the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.
- 2) No action shall have been taken by any competent authority in connection with the approvals referred to in Section 2(1)(c)(iii) which could restrain or prevent the Commitment Extension or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Commitment Extension.
 - 3) Borrower shall have paid all fees and expenses that are required to be paid as of the date set forth in that certain fee letter dated December 15, 2017, between the Borrower and Wells Fargo Securities, LLC;
 - 4) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date.

3. Termination Date Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by deleting the definition of "Termination Date" in its entirety and replacing it with the following:

"**Termination Date**" means the earlier to occur of (i) January 26, 2023 and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement."

4. Change of Control Amendment. Upon execution of this Agreement by the requisite Lenders under Section 9.05 of the Existing Credit Agreement, with effect from and including the Extension Date, Section 1.01 of the Existing Credit Agreement is amended by amending the definition of "Change of Control" by inserting ", directly or indirectly," immediately prior to "80% or more of the outstanding shares of the Voting Stock in the Borrower." in clause (ii) thereof.

5. Miscellaneous.

- (a) (i) Headings and captions may not be construed in interpreting provisions; (ii) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (iii) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.
- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

6. FULL FORCE AND EFFECT; RATIFICATION; ENTIRE AGREEMENT. EXCEPT AS EXPRESSLY MODIFIED HEREIN, ALL OF THE TERMS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT ARE UNCHANGED AND REMAIN IN FULL FORCE AND EFFECT, AND, AS MODIFIED HEREBY, THE BORROWER CONFIRMS AND RATIFIES ALL OF THE TERMS, COVENANTS AND CONDITIONS OF THE EXISTING CREDIT AGREEMENT. THIS AGREEMENT SHALL CONSTITUTE A LOAN DOCUMENT FOR ALL PURPOSES OF THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE EXECUTION, DELIVERY AND EFFECTIVENESS OF THIS AGREEMENT SHALL NOT, EXCEPT AS EXPRESSLY PROVIDED HEREIN, OPERATE AS A WAIVER OF ANY RIGHT, POWER OR REMEDY OF ANY LENDER OR THE ADMINISTRATIVE AGENT UNDER ANY OF THE LOAN DOCUMENTS, NOR, EXCEPT AS EXPRESSLY APPROVED HEREIN, CONSTITUTE A WAIVER OR

AMENDMENT OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

KENTUCKY UTILITIES COMPANY
a Kentucky corporation and a Virginia Corporation

By: _____

Name: Daniel K. Arbough

Title: Treasurer

BANK OF AMERICA N.A.
as an Extending Lender

By: /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis

Title: Director

BNP PARIBAS
as an Extending Lender

By: /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

By: /s/ Theodore Sheen

Name: Theodore Sheen

Title: Director

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH**

as an Extending Lender

By: /s/ Mikhail Faybusovich

Name: Mikhail Faybusovich

Title: Authorized Signatory

By: /s/ Christopher Zybrick

Name: Christopher Zybrick

Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS AG, STAMFORD BRANCH
as an Extending Lender

By: /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director
Banking Product Services, US

By: /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy

Name: James O'Shaughnessy

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Thomas E. Redmond

Name: Thomas E. Redmond

Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 26,000,000	6.5%
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The Bank of New York Mellon	12,000,000	3.0%
PNC Bank, National Association	12,000,000	3.0%
 Total	 \$ 400,000,000	 100%

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(Commitment Extension Pursuant to Section 2.08(d) of Credit Agreement and Amendment Pursuant to Section 9.05 of Existing Credit Agreement)

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RECITALS

A. Borrower, the Extending Lenders, the Lenders (as defined in the Existing Credit Agreement) and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as amended, restated, or otherwise modified from time to time prior to the date hereof, the "*Existing Credit Agreement*" and as amended hereby, the "*Credit Agreement*").

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 - b) an Extension Letter;
 - c) a certificate of the Borrower dated the Extension Date and signed by a Responsible Officer of the Borrower, certifying that:
 - i) on such date, no Default under the Credit Agreement has occurred and is continuing;
 - ii) the representations and warranties of the Borrower contained in the Credit Agreement are true and correct as of the Extension Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations and warranties in Section 5.04(c), Section 5.05 and Section 5.13 of the Credit Agreement; and

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- (b) Upon and after the execution of this Agreement by each of the parties hereto, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

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AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY
a Kentucky corporation

By: _____

Name: Daniel K. Arbough

Title: Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Swingline Lender and Issuing Lender

By: /s/ Frederick W. Price

Name: Frederick W. Price

Title: Managing Director

WELLS FARGO BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Frederick W. Price

Name: Frederick W. Price

Title: Managing Director

BANK OF AMERICA N.A.
as an Extending Lender

By: /s/ Maggie Halleland

Name: Maggie Halleland

Title: Vice President

JPMORGAN CHASE BANK, N.A.
as an Extending Lender

By: /s/ Juan J. Javellana

Name: Juan J. Javellana

Title: Executive Director

BARCLAYS BANK PLC
as an Extending Lender

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis

Title: Director

CITIBANK, N.A.
as an Extending Lender

By: /s/ Richard D. Rivera

Name: Richard Rivera

Title: Vice President

MIZUHO BANK, LTD.
as an Extending Lender

By: /s/ Nelson Chang

Name: Nelson Chang

Title: Authorized Signatory

THE BANK OF NOVA SCOTIA
as an Extending Lender

By: /s/ David Dewar

Name: David Dewar

Title: Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
as an Extending Lender

By: /s/ Chi-Cheng Chen

Name: Chi-Cheng Chen

Title: Director

BNP PARIBAS
as an Extending Lender

By: /s/ Francis DeLaney
Name: Francis DeLaney
Title: Managing Director

By: /s/ Theodore Sheen
Name: Theodore Sheen
Title: Director

**CANADIAN IMPERIAL BANK OF
COMMERCE, NEW YORK BRANCH**
as an Extending Lender

By: /s/ Gordon R. Eadon

Name: Gordon R. Eadon

Title: Authorized Signatory

By: /s/ Anju Abraham

Name: Anju Abraham

Title: Authorized Signatory

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH**
as an Extending Lender

By: /s/ Mikhail Faybusovich

Name: Mikhail Faybusovich

Title: Authorized Signatory

By: /s/ Christopher Zybrick

Name: Christopher Zybrick

Title: Authorized Signatory

GOLDMAN SACHS BANK USA
as an Extending Lender

By: /s/ Rebecca Kratz

Name: Rebecca Kratz

Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.
as an Extending Lender

By: /s/ Michael King

Name: Michael King

Title: Authorized Signatory

ROYAL BANK OF CANADA
as an Extending Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

SUNTRUST BANK
as an Extending Lender

By: /s/ Arize Agumadu

Name: Arize Agumadu

Title: Vice President

UBS AG, STAMFORD BRANCH

as an Extending Lender

By: /s/ Craig Pearson

Name: Craig Pearson

Title: Associate Director
Banking Product Services, US

By: /s/ Darlene Arias

Name: Darlene Arias

Title: Director

U.S. BANK NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ James O'Shaughnessy

Name: James O'Shaughnessy

Title: Vice President

THE BANK OF NEW YORK MELLON
as an Extending Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION
as an Extending Lender

By: /s/ Thomas E. Redmond

Name: Thomas E. Redmond

Title: Managing Director

SCHEDULE I

COMMITMENTS AND APPLICABLE PERCENTAGES OF EXTENDING LENDERS

LENDERS	COMMITMENT	PERCENTAGE
Wells Fargo Bank, National Association	\$ 32,500,000	6.5%
Bank of America, N.A.	32,500,000	6.5%
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Barclays Bank PLC	32,500,000	6.5%
Citibank, N.A.	32,500,000	6.5%
Mizuho Bank, Ltd.	32,500,000	6.5%
The Bank of Nova Scotia	25,000,000	5.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	25,000,000	5.0%
BNP Paribas	25,000,000	5.0%
Canadian Imperial Bank of Commerce	25,000,000	5.0%
Credit Suisse AG, Cayman Islands Branch	25,000,000	5.0%
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Royal Bank of Canada	25,000,000	5.0%
Suntrust Bank	25,000,000	5.0%
UBS AG, Stamford Branch	25,000,000	5.0%
U.S. Bank National Association	25,000,000	5.0%
The Bank of New York Mellon	15,000,000	3.0%
PNC Bank, National Association	15,000,000	3.0%
Total	\$ 500,000,000	100%

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Year Ended Dec. 31, 2017	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015 (a)	Year Ended Dec. 31, 2014 (a)	Year Ended Dec. 31, 2013 (a)
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 1,912	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728
Adjustment to reflect earnings from equity method investments on a cash basis	1	(1)	(1)	—	—
	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
Total fixed charges as below	927	917	1,054	1,095	1,096
Less:					
Capitalized interest	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>923</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>
Total earnings	<u>\$ 2,836</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>
Fixed charges, as defined:					
Interest charges (b)	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	15	17	16	22	38
Total fixed charges (c)	<u>\$ 927</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>
Ratio of earnings to fixed charges	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Year Ended Dec. 31, 2017	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013
Earnings, as defined:					
Income Before Income Taxes	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	153	141	139	131	117
Total earnings	<u>\$ 728</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	4	4	4	4	4
Total fixed charges (b)	<u>\$ 153</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>
Ratio of earnings to fixed charges (c)	<u>4.8</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL Electric does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2017	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	1	(1)	(1)	(1)	(1)
	<u>692</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>
Total fixed charges as below	<u>224</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>
Total earnings	<u>\$ 916</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>
Fixed charges, as defined:					
Interest charges (a) (b)	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	<u>9</u>	<u>9</u>	<u>8</u>	<u>6</u>	<u>6</u>
Total fixed charges	<u>\$ 224</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>
Ratio of earnings to fixed charges	<u>4.1</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2017	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013
Earnings, as defined:					
Income Before Income Taxes	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	76	76	61	51	36
Total earnings	<u>\$ 420</u>	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>
Fixed charges, as defined:					
Interest charges (a) (b)	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	5	5	4	2	2
Total fixed charges	<u>\$ 76</u>	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>
Ratio of earnings to fixed charges	<u>5.5</u>	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Year Ended Dec. 31, 2017	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013
Earnings, as defined:					
Income Before Income Taxes	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis	1	(1)	(1)	(1)	(1)
	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>5.2</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

PPL Corporation
Subsidiaries of the Registrant
At December 31, 2017

Exhibit 21

The following listing of subsidiaries omits subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2017.

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
CEP Reserves, Inc.	Delaware
Kentucky Utilities Company	Kentucky and Virginia
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
PMDC International Holdings, Inc.	Delaware
PPL (Barbados) SRL	Barbados
PPL Capital Funding, Inc.	Delaware
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Global, LLC	Delaware
PPL UK Management Partners	England
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	England and Wales
PPL WPD Limited	England and Wales
Western Power Distribution (East Midlands) plc	England and Wales
Western Power Distribution (South West) plc	England and Wales
Western Power Distribution (West Midlands) plc	England and Wales

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-202290 and 333-202278 on Form S-3 and the Registration Statement Nos. 333-215193, 333-209618, 333-181752, and 333-197629 on Form S-8 of our reports dated February 22, 2018, relating to the financial statements and financial statement schedule of PPL Corporation and subsidiaries, and the effectiveness of the PPL Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of PPL Corporation for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 22, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-01 on Form S-3 of our report dated February 22, 2018, relating to the financial statements of PPL Electric Utilities Corporation and subsidiaries appearing in this Annual Report on Form 10-K of PPL Electric Utilities Corporation for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 22, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-02 on Form S-3 of our report dated February 22, 2018, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC and subsidiaries appearing in this Annual Report on Form 10-K of LG&E and KU Energy LLC for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 22, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-03 on Form S-3 of our report dated February 22, 2018, relating to the financial statements of Louisville Gas and Electric Company appearing in this Annual Report on Form 10-K of Louisville Gas and Electric Company for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 22, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-202290-04 on Form S-3 of our report dated February 22, 2018, relating to the financial statements of Kentucky Utilities Company appearing in this Annual Report on Form 10-K of Kentucky Utilities Company for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statements on Form S-3 (Nos. 333-202290 and 333-202278) and the Registration Statements on Form S-8 (Nos. 333-215193, 333-209618, 333-181752, and 333-197629) of our report dated February 19, 2016, with respect to the consolidated financial statements and schedule of PPL Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 (No. 333-202290-01) of our report dated February 19, 2016, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in LG&E and KU Energy LLC's Registration Statement on Form S-3 (No. 333-202290-02) of our report dated February 19, 2016, with respect to the consolidated financial statements and schedule of LG&E and KU Energy LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Louisville Gas and Electric Company's Registration Statement on Form S-3 (No. 333-202290-03) of our report dated February 19, 2016, with respect to the financial statements of Louisville Gas and Electric Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Kentucky Utilities Company's Registration Statement on Form S-3 (No. 333-202290-04) of our report dated February 19, 2016, with respect to the financial statements of Kentucky Utilities Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 22, 2018

PPL CORPORATION
 2017 ANNUAL REPORT
 TO THE SECURITIES AND EXCHANGE COMMISSION
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2017 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Vincent Sorgi, Joanne H. Raphael, Jennifer L. McDonough and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 22nd day of February, 2018.

/s/ Rodney C. Adkins

Rodney C. Adkins

/s/ William H. Spence

William H. Spence

/s/ John W. Conway

John W. Conway

/s/ Natica von Althann

Natica von Althann

/s/ Steven G. Elliott

Steven G. Elliott

/s/ Keith H. Williamson

Keith H. Williamson

/s/ Venkata Rajamannar Madabhushi

Venkata Rajamannar Madabhushi

/s/ Phoebe A. Wood

Phoebe A. Wood

/s/ Craig A. Rogerson

Craig A. Rogerson

/s/ Armando Zagalo de Lima

Armando Zagalo de Lima

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

PPL CORPORATION AND SUBSIDIARIES
LONG-TERM DEBT SCHEDULE
(Unaudited)
(Millions of Dollars)

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2017</u>
PPL			
U.S.			
PPL Capital Funding			
<i>Senior Unsecured Notes</i>			
69352PAD5	4.200%	06/15/2022	\$ 400
69352PAE3	3.500%	12/01/2022	400
69352PAG8	1.900%	06/01/2018	250
69352PAF0	3.400%	06/01/2023	600
69352PAH6	4.700%	06/01/2043	300
69352PAK9	3.950%	03/15/2024	350
69352PAJ2	5.000%	03/15/2044	400
69352PAL7	3.100%	05/15/2026	650
69352PAM5	4.000%	09/15/2047	500
Total Senior Unsecured Notes			3,850
<i>Junior Subordinated Notes</i>			
69352PAC7 ⁶	4.360%	03/30/2067	480
69352P202	5.900%	04/30/2073	450
Total Junior Subordinated Notes			930
Total PPL Capital Funding Long-term Debt			4,780
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			3,339
Total PPL Electric Long-term Debt			3,339
LKE			
<i>Senior Unsecured Notes</i>			725
<i>Term Loan</i>			100
<i>First Mortgage Bonds</i>			3,975
Total LKE Long-term Debt ¹			4,800
Total U.S. Long-term Debt			12,919

U.K.	Interest Rate	Maturity Date	December 31, 2017
<i>Senior Unsecured Notes</i>			
USG7208UAA90	5.375%	05/01/2021	500
USG9796VAE32	7.375%	12/15/2028	202
XS1315962602	3.625%	11/06/2023	677
XS0627333221	5.250%	01/17/2023	947
XS0568142482	6.250%	12/10/2040	338
XS0568142052	6.000%	05/09/2025	338
XS0627336323	5.750%	04/16/2032	1,083
XS0979476602	3.875%	10/17/2024	541
XS0061222484	9.250%	11/09/2020	203
XS0280014282	4.804%	12/21/2037	304
XS0496999219	5.750%	03/23/2040	271
XS0165510313	5.875%	03/25/2027	338
XS0496975110	5.750%	03/23/2040	271
XS1718489898	2.375%	05/16/2029	338
Total Senior Unsecured Notes			6,351
<i>Index-Linked Notes ²</i>			
XS0632038666	2.671%	06/01/2043	224
XS0974143439	1.676%	09/24/2052	157
XS0277685987	1.541%	12/01/2053	195
XS0279320708	1.541%	12/01/2056	223
N/A ³	0.498%	05/31/2026	143
XS1577901702	0.010%	03/14/2029	70
Total Index-Linked Notes			1,012
Total U.K. Long-term Debt			7,363
Total Long-term Debt Before Adjustments			20,282
Fair market value adjustments			21
Unamortized premium and (discount), net			14
Unamortized debt issuance costs			(122)
Total Long-term Debt			20,195
Less current portion of Long-term Debt			348
Total Long-term Debt, noncurrent			\$ 19,847

	Interest Rate	Maturity Date	December 31, 2017
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
524808BX9 ⁴	1.800%	09/01/2029	\$ 116
524808BW1 ⁴	1.800%	02/15/2027	108
70869MAC8	4.000%	10/01/2023	90
69351UAG8	5.150%	12/15/2020	100
69351UAP8	3.000%	09/15/2021	400
69351UAQ6	2.500%	09/01/2022	250
69351UAH6	6.450%	08/15/2037	250
69351UAM5	6.250%	05/15/2039	300
69351UAN3	5.200%	07/15/2041	250
69351UAR4	4.750%	07/15/2043	350
69351UAS2	4.125%	06/15/2044	300
69351UAT0	4.150%	10/01/2045	350
69351UAU7	3.950%	06/01/2047	475
Total Senior Secured Notes			3,339
Total Long-term Debt Before Adjustments			3,339
Unamortized discount			(16)
Unamortized debt issuance costs			(25)
Total Long-term Debt			3,298
Less current portion of Long-term Debt			—
Total Long-term Debt, noncurrent			\$ 3,298
LKE			
<i>Senior Unsecured Notes</i>			
50188FAD7	3.750%	11/15/2020	\$ 475
50188FAE5	4.375%	10/01/2021	250
Total Senior Unsecured Notes			725
LG&E			
<i>First Mortgage Bonds</i>			1,624
<i>Term Loan</i>			100
KU			
<i>First Mortgage Bonds</i>			2,351
Total Long-term Debt Before Adjustments			4,800
Fair market value adjustments			—
Unamortized discount			(14)
Unamortized debt issuance costs			(27)
Total Long-term Debt			4,759
Less current portion of Long-term Debt			98
Total Long-term Debt, noncurrent ¹			\$ 4,661

LG&E	Interest Rate	Maturity Date	December 31, 2017
<i>Term Loan</i>	2.060%	10/25/2019	100
<i>First Mortgage Bonds</i>			
473044BV6 ⁵	1.160%	09/01/2026	23
546676AU1	5.125%	11/15/2040	285
546676AV9	4.650%	11/15/2043	250
546676AW7	3.300%	10/01/2025	300
546676AX5	4.375%	10/01/2045	250
546749AM4 ⁴	1.500%	10/01/2033	128
546749AK8 ⁴	2.200%	02/01/2035	40
546749AL6 ⁴	1.350%	11/01/2027	35
546751AH1 ⁴	1.250%	06/01/2033	35
546751AJ7 ⁴	1.250%	06/01/2033	31
896221AD0	3.750%	06/01/2033	60
896224AW2 ⁴	1.350%	11/01/2027	35
896224AX0 ⁴	1.050%	09/01/2026	27
896224AY8 ⁵	1.710%	09/01/2044	125
Total Long-term Debt Before Adjustments			1,724
Fair market value adjustments			—
Unamortized discount			(4)
Unamortized debt issuance costs			(11)
Total Long-term Debt			1,709
Less current portion of Long-term Debt			98
Total Long-term Debt, noncurrent			\$ 1,611

KU	Interest Rate	Maturity Date	December 31, 2017
<i>First Mortgage Bonds</i>			
144838AA7 ⁵	1.250%	02/01/2032	\$ 21
144838AB5 ⁵	1.250%	02/01/2032	2
144838AD1 ⁴	1.050%	09/01/2042	96
14483RAH0	5.750%	02/01/2026	18
14483RAM9 ⁵	1.700%	10/01/2034	50
14483RAN7 ⁵	1.730%	02/01/2032	78
14483RAP2 ⁵	1.740%	10/01/2034	54
491674BE6	3.250%	11/01/2020	500
491674BG1/BF3	5.125%	11/01/2040	750
491674BJ5	4.650%	11/15/2043	250
491674BK2	3.300%	10/01/2025	250
491674BL0	4.375%	10/01/2045	250
587824AA1 ⁵	1.050%	02/01/2032	8
587829AC6 ⁵	1.630%	05/01/2023	13
62479PAA4 ⁵	1.250%	02/01/2032	2
896221AC2	6.000%	03/01/2037	9
Total Long-term Debt Before Adjustments			2,351
Unamortized discount			(9)
Unamortized debt issuance costs			(14)
Total Long-term Debt			2,328
Less current portion of Long-term Debt			—
Total Long-term Debt, noncurrent			\$ 2,328

(1)Excludes a \$400 million intercompany note between LKE and an affiliate due 2026.

(2)Principal amount of the notes are adjusted based on changes in a specified index, as detailed in the terms of the related indentures.

(3)No CUSIP - Facility loan.

(4)Securities are currently in a term rate mode. Securities may be put back to the company on a date prior to the stated maturity date.

(5)Securities have a floating rate of interest that periodically resets. Securities may be put back to the company on a date prior to the stated maturity date.

(6)Securities are in a floating rate mode through maturity.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: March 26, 2018 (period: March 26, 2018)

Report of unscheduled material events or corporate changes.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 20, 2018

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by a check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

Section 8 - Other Events

Item 8.01 Other Events

On March 20, 2018, the Kentucky Public Service Commission ("KPSC") issued an order in the proceeding related to Louisville Gas and Electric Company's ("LG&E") and Kentucky Utilities Company's ("KU", and collectively with LG&E, the "Companies") January 29, 2018 proposed settlement agreement (the "Settlement") to reduce gas and electricity rates to reflect changes in federal income tax rates under the Tax Cuts and Jobs Act. The KPSC order approves, but makes certain modifications to, the Companies' previously submitted unanimous Settlement in the matter.

The KPSC estimates that, pursuant to its modifications, LG&E and KU electricity revenues and LG&E gas revenues would incorporate reductions of approximately \$79 million, \$108 million and \$17 million, respectively, in estimated tax-reform related savings to Kentucky customers for the period January 2018 through April 2019. These amounts represent aggregate increased reductions from the amounts proposed in the Settlement of approximately \$10 million for LG&E electricity customers and \$17 million for KU electricity customers. Because the amounts to be credited to customer bills to implement the reductions are based upon energy usage, ultimate aggregate reduction amounts may vary. The KPSC order provides for the rate changes to begin April 1, 2018.

The order and the original Settlement both provide for updated, comparable tax-reform related credits to continue after May 2019, in the event the base rates of the Companies have not been otherwise reset via base rate proceedings. The Companies have indicated their expectation to submit such applications to change base rates during 2018.

On March 26, 2018, the Companies filed a petition for reconsideration and request for hearing with the KPSC, taking exception with the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. The Companies cannot predict the ultimate outcome of this matter.

Statements in this report regarding future events and their timing, including the Companies' proposed rate changes, future rates, rate mechanisms or returns on equity, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate proceedings and regulatory cost recovery; market demand and prices for electricity and natural gas; political, regulatory or economic conditions in states and regions where the Companies conduct business; and the progress of actual construction, purchase or installation of assets or operations subject to tracker mechanisms. All forward-looking statements

should be considered in light of these important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: March 26, 2018

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: May 03, 2018 (period: March 31, 2018)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2018.
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	[X]	[]	[]	[]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]	[]
Kentucky Utilities Company	[]	[]	[X]	[]	[]

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <u> </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u> </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u> </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u> </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u> </u>	No <u>X</u>

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 699,042,874 shares outstanding at April 25, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 25, 2018.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 25, 2018.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 25, 2018.

This document is available free of charge at the Investors section of PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

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**PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' financial statements in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, an indirect U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2017 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2017.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Adjusted Gross Margins - a non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

Advanced Metering System - meters and meter-reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DNO - Distribution Network Operator in the U.K.

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DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

DUoS - Distribution Use of System, the charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MPR - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government

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policy or new outputs that may be needed to meet the needs of consumers and other network users. On April 30, 2018, Ofgem decided not to engage in a mid-period review of the RII0-ED1 price-control period.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been and continue to be based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

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RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2017 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal, or U.K. tax laws or regulations, including the TCJA;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

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New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$ 2,126	\$ 1,951
Operating Expenses		
Operation		
Fuel	214	191
Energy purchases	241	215
Other operation and maintenance	468	470
Depreciation	269	242
Taxes, other than income	83	75
Total Operating Expenses	<u>1,275</u>	<u>1,193</u>
Operating Income	851	758
Other Income (Expense) - net	(43)	(9)
Interest Expense	239	217
Income Before Income Taxes	569	532
Income Taxes	117	129
Net Income	<u>\$ 452</u>	<u>\$ 403</u>
Earnings Per Share of Common Stock:		
Net Income Available to PPL Common Shareowners:		
Basic	\$ 0.65	\$ 0.59
Diluted	\$ 0.65	\$ 0.59
Dividends Declared Per Share of Common Stock	\$ 0.41	\$ 0.395
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	694,514	680,882
Diluted	695,322	683,084

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Net income	\$ 452	\$ 403
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of \$0, (\$1)	116	(24)
Qualifying derivatives, net of tax of \$4, \$2	(20)	(6)
Defined benefit plans:		
Net actuarial gain (loss), net of tax of \$0, \$0	(1)	—
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Qualifying derivatives, net of tax of (\$2), \$0	12	(1)
Defined benefit plans:		
Net actuarial (gain) loss, net of tax of (\$9), (\$9)	36	32
Total other comprehensive income	143	1
Comprehensive income	\$ 595	\$ 404

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 452	\$ 403
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	269	242
Amortization	21	23
Defined benefit plans - (income)	(50)	(19)
Deferred income taxes and investment tax credits	59	161
Unrealized losses on derivatives, and other hedging activities	85	35
Stock-based compensation expense	15	19
Other	(3)	(1)
Change in current assets and current liabilities		
Accounts receivable	(71)	(43)
Accounts payable	(36)	(84)
Unbilled revenues	58	52
Fuel, materials and supplies	43	44
Prepayments	(73)	(110)
Taxes payable	22	(21)
Regulatory assets and liabilities, net	64	(17)
Other current liabilities	(120)	(60)
Other	23	22
Other operating activities		
Defined benefit plans - funding	(150)	(520)
Other assets	(30)	5
Other liabilities	(12)	4
Net cash provided by operating activities	<u>566</u>	<u>135</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(750)	(677)
Expenditures for intangible assets	(7)	(3)
Other investing activities	4	1
Net cash used in investing activities	<u>(753)</u>	<u>(679)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	144	64
Issuance of common stock	100	73
Payment of common stock dividends	(273)	(258)
Net increase in short-term debt	369	744
Other financing activities	(9)	(16)
Net cash provided by financing activities	<u>331</u>	<u>607</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>(2)</u>	<u>3</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash	<u>142</u>	<u>66</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	367
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 653</u>	<u>\$ 433</u>
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 313	\$ 236
Accrued expenditures for intangible assets at March 31,	\$ 65	\$ 62

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 629	\$ 485
Accounts receivable (less reserve: 2018, \$56; 2017, \$51)		
Customer	760	681
Other	89	100
Unbilled revenues	489	543
Fuel, materials and supplies	279	320
Prepayments	139	66
Price risk management assets	56	49
Other current assets	49	50
Total Current Assets	2,490	2,294
Property, Plant and Equipment		
Regulated utility plant	38,891	38,228
Less: accumulated depreciation - regulated utility plant	7,003	6,785
Regulated utility plant, net	31,888	31,443
Non-regulated property, plant and equipment	387	384
Less: accumulated depreciation - non-regulated property, plant and equipment	114	110
Non-regulated property, plant and equipment, net	273	274
Construction work in progress	1,575	1,375
Property, Plant and Equipment, net	33,736	33,092
Other Noncurrent Assets		
Regulatory assets	1,519	1,504
Goodwill	3,302	3,258
Other intangibles	703	697
Pension benefit asset	378	284
Price risk management assets	120	215
Other noncurrent assets	140	135
Total Other Noncurrent Assets	6,162	6,093
Total Assets	\$ 42,388	\$ 41,479

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,457	\$ 1,080
Long-term debt due within one year	250	348
Accounts payable	836	924
Taxes	128	105
Interest	323	282
Dividends	285	273
Customer deposits	286	292
Regulatory liabilities	158	95
Other current liabilities	515	624
Total Current Liabilities	4,238	4,023
Long-term Debt	20,214	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,557	2,462
Investment tax credits	128	129
Accrued pension obligations	653	800
Asset retirement obligations	292	312
Regulatory liabilities	2,689	2,704
Other deferred credits and noncurrent liabilities	441	441
Total Deferred Credits and Other Noncurrent Liabilities	6,760	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,411	10,305
Earnings reinvested	4,037	3,871
Accumulated other comprehensive loss	(3,279)	(3,422)
Total Equity	11,176	10,761
Total Liabilities and Equity	\$ 42,388	\$ 41,479

(a) 1,560,000 shares authorized; 697,383 and 693,398 shares issued and outstanding at March 31, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	3,985		115			115
Stock-based compensation			(9)			(9)
Net income				452		452
Dividends and dividend equivalents				(286)		(286)
Other comprehensive income (loss)					143	143
March 31, 2018	<u>697,383</u>	<u>\$ 7</u>	<u>\$ 10,411</u>	<u>\$ 4,037</u>	<u>\$ (3,279)</u>	<u>\$ 11,176</u>
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	2,696		97			97
Stock-based compensation			(21)			(21)
Net income				403		403
Dividends and dividend equivalents				(270)		(270)
Other comprehensive income (loss)					1	1
March 31, 2017	<u>682,427</u>	<u>\$ 7</u>	<u>\$ 9,917</u>	<u>\$ 3,962</u>	<u>\$ (3,777)</u>	<u>\$ 10,109</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareholders' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Operating Revenues	\$ 639	\$ 573
Operating Expenses		
Operation		
Energy purchases	161	146
Other operation and maintenance	133	163
Depreciation	85	75
Taxes, other than income	32	29
Total Operating Expenses	411	413
Operating Income	228	160
Other Income (Expense) - net	6	—
Interest Expense	37	33
Income Before Income Taxes	197	127
Income Taxes	49	48
Net Income (a)	\$ 148	\$ 79

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 148	\$ 79
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	85	75
Amortization	6	8
Defined benefit plans - expense	2	5
Deferred income taxes and investment tax credits	21	41
Other	(5)	—
Change in current assets and current liabilities		
Accounts receivable	(30)	(27)
Accounts payable	(36)	(18)
Unbilled revenues	16	12
Prepayments	(69)	(75)
Regulatory assets and liabilities, net	5	(11)
Taxes payable	4	—
Other	(19)	(14)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(25)	5
Other liabilities	1	(1)
Net cash provided by operating activities	<u>76</u>	<u>55</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(245)	(274)
Expenditures for intangible assets	(1)	(2)
Net cash used in investing activities	<u>(246)</u>	<u>(276)</u>
Cash Flows from Financing Activities		
Contributions from parent	—	100
Payment of common stock dividends to parent	(72)	(76)
Net increase in short-term debt	213	204
Net cash provided by financing activities	<u>141</u>	<u>228</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(29)	7
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	<u>51</u>	<u>15</u>
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 22</u>	<u>\$ 22</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 147	\$ 122

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 20	\$ 49
Accounts receivable (less reserve: 2018, \$27; 2017, \$24)		
Customer	328	279
Other	10	71
Accounts receivable from affiliates	42	—
Unbilled revenues	111	127
Materials and supplies	34	34
Prepayments	75	6
Regulatory assets	16	16
Other current assets	12	6
Total Current Assets	648	588
Property, Plant and Equipment		
Regulated utility plant	10,950	10,785
Less: accumulated depreciation - regulated utility plant	2,815	2,778
Regulated utility plant, net	8,135	8,007
Construction work in progress	560	508
Property, Plant and Equipment, net	8,695	8,515
Other Noncurrent Assets		
Regulatory assets	726	709
Intangibles	259	259
Other noncurrent assets	15	11
Total Other Noncurrent Assets	1,000	979
Total Assets	\$ 10,343	\$ 10,082

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 213	\$ —
Accounts payable	362	386
Accounts payable to affiliates	32	31
Taxes	12	8
Interest	38	36
Regulatory liabilities	95	86
Other current liabilities	83	98
Total Current Liabilities	835	645
Long-term Debt		
	3,298	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,184	1,154
Accrued pension obligations	215	246
Regulatory liabilities	662	668
Other deferred credits and noncurrent liabilities	81	79
Total Deferred Credits and Other Noncurrent Liabilities	2,142	2,147
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,729
Earnings reinvested	975	899
Total Equity	4,068	3,992
Total Liabilities and Equity	\$ 10,343	\$ 10,082

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				148	148
Dividends declared on common stock				(72)	(72)
March 31, 2018	66,368	\$ 364	\$ 2,729	\$ 975	\$ 4,068
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				79	79
Capital contributions from PPL			100		100
Dividends declared on common stock				(76)	(76)
March 31, 2017	66,368	\$ 364	\$ 2,254	\$ 876	\$ 3,494

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Operating Revenues	\$ 872	\$ 809
Operating Expenses		
Operation		
Fuel	214	191
Energy purchases	80	69
Other operation and maintenance	205	205
Depreciation	117	105
Taxes, other than income	17	16
Total Operating Expenses	633	586
Operating Income	239	223
Other Income (Expense) - net	(3)	(4)
Interest Expense	50	49
Interest Expense with Affiliate	5	4
Income Before Income Taxes	181	166
Income Taxes	39	63
Net Income (a)	\$ 142	\$ 103

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 142	\$ 103
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	117	105
Amortization	5	7
Defined benefit plans - expense	3	8
Deferred income taxes and investment tax credits	8	48
Change in current assets and current liabilities		
Accounts receivable	(5)	21
Accounts payable	10	(28)
Accounts payable to affiliates	2	7
Unbilled revenues	31	22
Fuel, materials and supplies	42	41
Taxes payable	7	(2)
Accrued interest	42	42
Other	(7)	(38)
Other operating activities		
Defined benefit plans - funding	(108)	(22)
Expenditures for asset retirement obligations	(9)	(6)
Other assets	(3)	1
Other liabilities	1	3
Net cash provided by operating activities	<u>278</u>	<u>312</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(294)	(184)
Net cash used in investing activities	<u>(294)</u>	<u>(184)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	12	(81)
Issuance of long-term debt	100	—
Distributions to member	(69)	(102)
Net increase (decrease) in short-term debt	(29)	58
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>13</u>	<u>(126)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3)	2
Cash and Cash Equivalents at Beginning of Period	<u>30</u>	<u>13</u>
Cash and Cash Equivalents at End of Period	<u>\$ 27</u>	<u>\$ 15</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 124	\$ 75

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 27	\$ 30
Accounts receivable (less reserve: 2018, \$26; 2017, \$25)		
Customer	247	246
Other	41	44
Accounts receivable from affiliates	1	—
Unbilled revenues	172	203
Fuel, materials and supplies	212	254
Prepayments	28	25
Regulatory assets	12	18
Other current assets	5	8
Total Current Assets	745	828
Property, Plant and Equipment		
Regulated utility plant	13,226	13,187
Less: accumulated depreciation - regulated utility plant	1,866	1,785
Regulated utility plant, net	11,360	11,402
Construction work in progress	775	627
Property, Plant and Equipment, net	12,135	12,029
Other Noncurrent Assets		
Regulatory assets	793	795
Goodwill	996	996
Other intangibles	84	86
Other noncurrent assets	81	68
Total Other Noncurrent Assets	1,954	1,945
Total Assets	\$ 14,834	\$ 14,802

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 215	\$ 244
Long-term debt due within one year	—	98
Notes payable with affiliates	237	225
Accounts payable	292	338
Accounts payable to affiliates	9	7
Customer deposits	59	58
Taxes	73	66
Price risk management liabilities	4	4
Regulatory liabilities	63	9
Interest	74	32
Asset retirement obligations	91	85
Other current liabilities	94	161
Total Current Liabilities	1,211	1,327
Long-term Debt		
Long-term debt	4,859	4,661
Long-term debt to affiliate	400	400
Total Long-term Debt	5,259	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	882	866
Investment tax credits	128	129
Price risk management liabilities	18	22
Accrued pension obligations	265	365
Asset retirement obligations	249	271
Regulatory liabilities	2,027	2,036
Other deferred credits and noncurrent liabilities	158	162
Total Deferred Credits and Other Noncurrent Liabilities	3,727	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity		
	4,637	4,563
Total Liabilities and Equity	\$ 14,834	\$ 14,802

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2017	\$ 4,563
Net income	142
Distributions to member	(69)
Other comprehensive income	1
March 31, 2018	<u>\$ 4,637</u>
December 31, 2016	\$ 4,667
Net income	103
Distributions to member	(102)
Other comprehensive income	2
March 31, 2017	<u>\$ 4,670</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Operating Revenues		
Retail and wholesale	\$ 407	\$ 374
Electric revenue from affiliate	12	17
Total Operating Revenues	419	391
Operating Expenses		
Operation		
Fuel	79	80
Energy purchases	76	64
Energy purchases from affiliate	6	2
Other operation and maintenance	89	85
Depreciation	48	44
Taxes, other than income	9	8
Total Operating Expenses	307	283
Operating Income	112	108
Other Income (Expense) - net	(1)	(4)
Interest Expense	18	17
Income Before Income Taxes	93	87
Income Taxes	21	33
Net Income (a)	\$ 72	\$ 54

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 72	\$ 54
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	48	44
Amortization	4	3
Defined benefit plans - expense	1	2
Deferred income taxes and investment tax credits	7	31
Change in current assets and current liabilities		
Accounts receivable	2	13
Accounts receivable from affiliates	(7)	1
Accounts payable	8	(12)
Accounts payable to affiliates	(2)	(4)
Unbilled revenues	16	9
Fuel, materials and supplies	36	33
Taxes payable	(1)	(28)
Accrued interest	13	13
Other	12	(11)
Other operating activities		
Defined benefit plans - funding	(55)	(1)
Expenditures for asset retirement obligations	(5)	(4)
Other assets	—	2
Other liabilities	(3)	(3)
Net cash provided by operating activities	<u>146</u>	<u>142</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(150)	(94)
Net cash used in investing activities	<u>(150)</u>	<u>(94)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	100	—
Net increase (decrease) in short-term debt	(62)	38
Payment of common stock dividends to parent	(34)	(87)
Other financing activities	(1)	—
Net cash provided by (used in) financing activities	<u>3</u>	<u>(49)</u>
Net Decrease in Cash and Cash Equivalents	(1)	(1)
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	<u>\$ 14</u>	<u>\$ 4</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$ 75	\$ 34
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 14	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	111	116
Other	14	13
Unbilled revenues	75	91
Accounts receivable from affiliates	31	24
Fuel, materials and supplies	95	131
Prepayments	12	11
Regulatory assets	10	12
Other current assets	1	3
Total Current Assets	363	416
Property, Plant and Equipment		
Regulated utility plant	5,597	5,587
Less: accumulated depreciation - regulated utility plant	646	614
Regulated utility plant, net	4,951	4,973
Construction work in progress	401	305
Property, Plant and Equipment, net	5,352	5,278
Other Noncurrent Assets		
Regulatory assets	406	411
Goodwill	389	389
Other intangibles	51	53
Other noncurrent assets	26	12
Total Other Noncurrent Assets	872	865
Total Assets	\$ 6,587	\$ 6,559

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 137	\$ 199
Long-term debt due within one year	—	98
Accounts payable	170	179
Accounts payable to affiliates	21	23
Customer deposits	28	27
Taxes	24	25
Price risk management liabilities	4	4
Regulatory liabilities	29	3
Interest	24	11
Asset retirement obligations	19	24
Other current liabilities	34	52
Total Current Liabilities	490	645
Long-term Debt	1,808	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	582	572
Investment tax credits	35	35
Price risk management liabilities	18	22
Accrued pension obligations	—	45
Asset retirement obligations	92	97
Regulatory liabilities	912	919
Other deferred credits and noncurrent liabilities	85	86
Total Deferred Credits and Other Noncurrent Liabilities	1,724	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,712	1,712
Earnings reinvested	429	391
Total Equity	2,565	2,527
Total Liabilities and Equity	\$ 6,587	\$ 6,559

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				72	72
Cash dividends declared on common stock				(34)	(34)
March 31, 2018	21,294	\$ 424	\$ 1,712	\$ 429	\$ 2,565
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				54	54
Cash dividends declared on common stock				(87)	(87)
March 31, 2017	21,294	\$ 424	\$ 1,682	\$ 337	\$ 2,443

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Operating Revenues		
Retail and wholesale	\$ 465	\$ 435
Electric revenue from affiliate	6	2
Total Operating Revenues	471	437
Operating Expenses		
Operation		
Fuel	135	111
Energy purchases	4	5
Energy purchases from affiliate	12	17
Other operation and maintenance	105	108
Depreciation	68	60
Taxes, other than income	8	8
Total Operating Expenses	332	309
Operating Income	139	128
Other Income (Expense) - net	(3)	(2)
Interest Expense	25	24
Income Before Income Taxes	111	102
Income Taxes	24	39
Net Income (a)	\$ 87	\$ 63

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 87	\$ 63
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	68	60
Amortization	1	4
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	1	37
Change in current assets and current liabilities		
Accounts receivable	(7)	8
Accounts payable	11	(4)
Accounts payable to affiliates	—	(7)
Unbilled revenues	15	13
Fuel, materials and supplies	6	8
Taxes payable	14	(34)
Accrued interest	22	22
Other	17	(12)
Other operating activities		
Defined benefit plans - funding	(47)	(19)
Expenditures for asset retirement obligations	(4)	(2)
Other assets	(3)	(1)
Other liabilities	4	1
Net cash provided by operating activities	<u>185</u>	<u>139</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(143)	(89)
Net cash used in investing activities	<u>(143)</u>	<u>(89)</u>
Cash Flows from Financing Activities		
Payment of common stock dividends to parent	(79)	(70)
Net increase in short-term debt	33	20
Net cash used in financing activities	<u>(46)</u>	<u>(50)</u>
Net Decrease in Cash and Cash Equivalents	(4)	—
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	<u>\$ 11</u>	<u>\$ 7</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$ 48	\$ 41
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 11	\$ 15
Accounts receivable (less reserve: 2018, \$2; 2017, \$1)		
Customer	136	130
Other	26	30
Unbilled revenues	97	112
Fuel, materials and supplies	117	123
Prepayments	14	14
Regulatory assets	2	6
Other current assets	4	5
Total Current Assets	<u>407</u>	<u>435</u>
Property, Plant and Equipment		
Regulated utility plant	7,620	7,592
Less: accumulated depreciation - regulated utility plant	1,218	1,170
Regulated utility plant, net	<u>6,402</u>	<u>6,422</u>
Construction work in progress	373	321
Property, Plant and Equipment, net	<u>6,775</u>	<u>6,743</u>
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	33	33
Other noncurrent assets	67	52
Total Other Noncurrent Assets	<u>1,094</u>	<u>1,076</u>
Total Assets	<u>\$ 8,276</u>	<u>\$ 8,254</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 78	\$ 45
Accounts payable	109	137
Accounts payable to affiliates	54	53
Customer deposits	31	31
Taxes	33	19
Regulatory liabilities	34	6
Interest	38	16
Asset retirement obligations	72	61
Other current liabilities	30	46
Total Current Liabilities	479	414
Long-term Debt	2,329	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	696	691
Investment tax credits	93	94
Accrued pension obligations	—	36
Asset retirement obligations	157	174
Regulatory liabilities	1,115	1,117
Other deferred credits and noncurrent liabilities	42	43
Total Deferred Credits and Other Noncurrent Liabilities	2,103	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Earnings reinvested	441	433
Total Equity	3,365	3,357
Total Liabilities and Equity	\$ 8,276	\$ 8,254

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Net income				87		87
Cash dividends declared on common stock				(79)		(79)
March 31, 2018	37,818	\$ 308	\$ 2,616	\$ 441	\$ —	\$ 3,365
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				63		63
Cash dividends declared on common stock				(70)		(70)
Other comprehensive income (loss)					1	1
March 31, 2017	37,818	\$ 308	\$ 2,616	\$ 393	\$ —	\$ 3,317

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2017 is derived from that Registrant's 2017 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2017 Form 10-K. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Revenue from Contracts with Customers

Effective January 1, 2018, the Registrants adopted accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Registrants adopted this guidance using the modified retrospective transition method. No cumulative effect adjustment was required as of the January 1, 2018 adoption date.

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 4 for the required disclosures as a result of the adoption of this standard.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Registrants adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. Prospectively, the guidance limits the capitalization to the service cost component of net periodic benefit costs.

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For PPL, the non-service cost components of net periodic benefit costs are in a net credit position for the three months ended March 31, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were \$5 million (\$4 million after-tax or \$0.01 per share) for the three months ended March 31, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 on the Statements of Income as a result of the adoption.

	Three Months	
	2018	2017
PPL	\$ 68	\$ 38
PPL Electric	2	(1)
LKE	2	(2)
LG&E	1	(2)
KU	1	(1)

PPL and PPL Electric elected to use the practical expedient that permits using the amounts disclosed in the defined benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements.

Presentation of Restricted Cash in the Statement of Cash Flows (PPL and PPL Electric)

Effective January 1, 2018, PPL and PPL Electric adopted accounting guidance that changes the cash flow statement presentation of restricted cash. Under the new guidance, amounts considered restricted cash are presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts on the Statements of Cash Flows. The guidance requires a reconciliation of the total cash, cash equivalents and restricted cash from the Statement of Cash Flows to amounts on the Balance Sheets and disclosure of the nature of the restrictions. PPL and PPL Electric have applied this guidance on a retrospective basis for all periods presented. The adoption of this guidance did not have a material impact on the Statements of Cash Flows.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets that sum to the total of the same amounts shown on the Statements of Cash Flows:

	PPL		PPL Electric	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 629	\$ 485	\$ 20	\$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	21	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 653	\$ 511	\$ 22	\$ 51

(a) Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

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3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2017 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended March 31 are as follows:

	Three Months	
	2018	2017
Operating Revenues from external customers		
U.K. Regulated	\$ 615	\$ 568
Kentucky Regulated	872	809
Pennsylvania Regulated	639	573
Corporate and Other	—	1
Total	\$ 2,126	\$ 1,951
Net Income		
U.K. Regulated (a)	\$ 197	\$ 286
Kentucky Regulated	133	95
Pennsylvania Regulated	148	79
Corporate and Other	(26)	(57)
Total	\$ 452	\$ 403

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 14 for additional information.

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	March 31,	December 31,
	2018	2017
Assets		
U.K. Regulated (a)	\$ 17,444	\$ 16,813
Kentucky Regulated	14,500	14,468
Pennsylvania Regulated	10,356	10,082
Corporate and Other (b)	88	116
Total	\$ 42,388	\$ 41,479

(a) Includes \$12.9 billion and \$12.5 billion of net PP&E as of March 31, 2018 and December 31, 2017. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

U.K. Regulated Segment Revenue (PPL)

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

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DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on actual volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD's DUoS contracts.

Pennsylvania Regulated Segment Revenue (*PPL and PPL Electric*)

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are typically due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric's retail account contracts.

Transmission Revenue

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

Kentucky Regulated Segment Revenue (*PPL, LKE, LG&E and KU*)

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers primarily from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the

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estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual or estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers primarily have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the period ended March 31, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 2,126	\$ 639	\$ 872	\$ 419	\$ 471
Revenues derived from:					
Alternative revenue programs (b)	32	2	30	14	16
Other (c)	(16)	(4)	(5)	(1)	(4)
Revenues from Contracts with Customers	\$ 2,142	\$ 637	\$ 897	\$ 432	\$ 483

- (a) PPL includes \$615 million of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 3 for additional information.
- (b) Alternative revenue programs for PPL Electric include the over/under-collection of its transmission formula rate. Alternative revenue programs for LKE, LG&E and KU include the over/under collection for the ECR and DSM programs as well as LG&E's over/under collection of its GLT program and KU's over/under collection of its generation formula rate. Over-collections of revenue are shown as positive amounts in the table above; under-collections are shown as negative amounts.
- (c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

As discussed in Note 3, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$532 million and \$105 million for the three months ended March 31, 2018.

The following table shows revenues from contracts with customers disaggregated by customer class for the period ended March 31, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 584	\$ —	\$ —	\$ —	\$ —
Residential	804	408	396	197	199
Commercial	325	98	227	124	103
Industrial	155	13	142	44	98
Other (b)	105	13	68	31	37
Wholesale - municipal	30	—	30	—	30
Wholesale - other (c)	34	—	34	36	16
Transmission	105	105	—	—	—
Revenues from Contracts with Customers	\$ 2,142	\$ 637	\$ 897	\$ 432	\$ 483

- (a) Represents customers of WPD.
- (b) Primarily includes revenues from pole attachments, street lighting and other public authorities.
- (c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

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Contract receivables from customers are primarily included in "Account receivable - Customer" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable balances that were impaired for the period ended March 31, 2018.

	Three Months
PPL	\$ 10
PPL Electric	7
LKE	2
LG&E	1
KU	1

The following table shows the balances and certain activity of contract liabilities resulting from contracts with customers.

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	\$ 29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities as of March 31, 2018	20	11	7	3	4
Revenue recognized during the period that was included in the opening contract liability balance	17	8	8	4	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as electricity is delivered in subsequent periods.

5. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	Three Months	
	2018	2017
Income (Numerator)		
Net income	\$ 452	\$ 403
Less amounts allocated to participating securities	1	1
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 451</u>	<u>\$ 402</u>
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	694,514	680,882
Add incremental non-participating securities:		
Share-based payment awards	808	2,202
Weighted-average shares - Diluted EPS	<u>695,322</u>	<u>683,084</u>

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	Three Months	
	2018	2017
Basic EPS		
Net Income available to PPL common shareowners	\$ 0.65	\$ 0.59
Diluted EPS		
Net Income available to PPL common shareowners	\$ 0.65	\$ 0.59

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months	
	2018	2017
Stock-based compensation plans (a)	476	887
DRIP	485	445

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock units and conversion of stock units granted to directors.

See Note 8 for additional information on common stock issued under the ATM Program.

For the periods ended March 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months	
	2018	2017
Stock options	230	696
Restricted stock units	20	—

6. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are as follows.

(PPL)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 119	\$ 186
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	15	13
Valuation allowance adjustments	7	5
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(7)	(48)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	1	(9)
Impact of the U.K. Finance Acts	(1)	(3)
Depreciation and other items not normalized (a)	(12)	(3)
Interest benefit on U.K. financing entities	(5)	(4)
Stock-based compensation	1	(3)
Other	(1)	(5)
Total increase (decrease)	(2)	(57)
Total income taxes	\$ 117	\$ 129

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) Lower income taxes in 2017 primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

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(PPL Electric)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 41	\$ 44
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	15	8
Depreciation and other items not normalized (a)	(7)	(2)
Stock-based compensation	—	(2)
Total increase (decrease)	8	4
Total income taxes	\$ 49	\$ 48

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(LKE)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 38	\$ 58
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	8	6
Amortization of excess deferred income taxes (a)	(5)	—
Other	(2)	(1)
Total increase (decrease)	1	5
Total income taxes	\$ 39	\$ 63

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(LG&E)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 20	\$ 30
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	3
Amortization of excess deferred income taxes (a)	(2)	—
Other	(1)	—
Total increase (decrease)	1	3
Total income taxes	\$ 21	\$ 33

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(KU)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 23	\$ 36
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	5	4
Amortization of excess deferred income taxes (a)	(3)	—
Other	(1)	(1)
Total increase (decrease)	1	3
Total income taxes	\$ 24	\$ 39

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

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Kentucky Tax Reform

(All Registrants)

On April 14, 2018, the Kentucky House of Representatives and Kentucky Senate passed House Bill 487 (HB 487). HB 487 provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. HB 487 became law on April 27, 2018. LKE continues to evaluate the impacts of Kentucky tax reform, but expects to incur a deferred tax charge of approximately \$9 million in the second quarter of 2018 associated with the remeasurement of accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. LG&E and KU currently estimate the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, to be an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

7. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	2	6	—	—
Smart meter rider	15	15	15	15
Plant outage costs	6	3	—	—
Other	5	5	1	1
Total current regulatory assets (a)	\$ 28	\$ 34	\$ 16	\$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 866	\$ 880	\$ 496	\$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs (b)	47	33	17	—
Unamortized loss on debt	51	54	27	29
Interest rate swaps	22	26	—	—
Terminated interest rate swaps	91	92	—	—
Accumulated cost of removal of utility plant	176	173	176	173
AROs	247	234	—	—
Act 129 compliance rider	7	—	7	—
Other	9	9	—	—
Total noncurrent regulatory assets	\$ 1,519	\$ 1,504	\$ 726	\$ 709

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	PPL		PPL Electric			
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017		
Current Regulatory Liabilities:						
Generation supply charge	\$ 33	\$ 34	\$ 33	\$ 34		
Transmission service charge	16	9	16	9		
Environmental cost recovery	18	1	—	—		
Universal service rider	24	26	24	26		
Transmission formula rate	10	9	10	9		
Fuel adjustment clause	2	3	—	—		
TCJA bill credit (c)	34	—	—	—		
Storm damage expense rider	12	8	12	8		
Other	9	5	—	—		
Total current regulatory liabilities	\$ 158	\$ 95	\$ 95	\$ 86		
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 677	\$ 677	\$ —	\$ —		
Power purchase agreement - OVEC (d)	66	68	—	—		
Net deferred taxes (e)	1,839	1,853	660	668		
Defined benefit plans	28	27	—	—		
Terminated interest rate swaps	74	74	—	—		
Other	5	5	2	—		
Total noncurrent regulatory liabilities	\$ 2,689	\$ 2,704	\$ 662	\$ 668		
	LKE		LG&E		KU	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current Regulatory Assets:						
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	2	6	—	—	2	6
Plant outage costs	6	3	6	3	—	—
Other	4	4	4	4	—	—
Total current regulatory assets	\$ 12	\$ 18	\$ 10	\$ 12	\$ 2	\$ 6
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 370	\$ 376	\$ 230	\$ 234	\$ 140	\$ 142
Storm costs	30	33	16	18	14	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	22	26	22	26	—	—
Terminated interest rate swaps	91	92	53	54	38	38
AROs	247	234	67	61	180	173
Other	9	9	3	2	6	7
Total noncurrent regulatory assets	\$ 793	\$ 795	\$ 406	\$ 411	\$ 387	\$ 384

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	LKE		LG&E		KU	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current Regulatory Liabilities:						
Environmental cost recovery	\$ 18	\$ 1	\$ 7	\$ —	\$ 11	\$ 1
Fuel adjustment clause	2	3	—	—	2	3
Gas line tracker	2	3	2	3	—	—
TCJA bill credit (c)	34	—	16	—	18	—
Other	7	2	4	—	3	2
Total current regulatory liabilities	\$ 63	\$ 9	\$ 29	\$ 3	\$ 34	\$ 6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 677	\$ 677	\$ 280	\$ 282	\$ 397	\$ 395
Power purchase agreement - OVEC (d)	66	68	46	47	20	21
Net deferred taxes (e)	1,179	1,185	549	552	630	633
Defined benefit plans	28	27	—	—	28	27
Terminated interest rate swaps	74	74	37	37	37	37
Other	3	5	—	1	3	4
Total noncurrent regulatory liabilities	\$ 2,027	\$ 2,036	\$ 912	\$ 919	\$ 1,115	\$ 1,117

- (a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.
(b) Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.
(c) Relates to estimated amounts owed to customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018, not yet reflected in customer rates.
(d) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.
(e) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which reduced the U.S. federal corporate income tax rate effective January 1, 2018, requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to implement Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism

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from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issue related to the TCJA. A hearing on this matter is scheduled for May 24, 2018.

LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its ongoing rate case in Virginia. New rates, inclusive of TCJA impacts, will be effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect will be addressed through KU's annual information filing for calendar year 2018. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's Louisville/Jefferson county customers in the franchise areas as a separate line item on their bill, the franchise fee will revert to zero. In August 2016, LG&E filed an application requesting the KPSC to review and rule upon the recoverability of the franchise fee.

On March 14, 2018, the KPSC issued an order authorizing the franchise fee to be recovered only from LG&E's Louisville/Jefferson County customers in the franchise area. As a result, the franchise fee will continue to be zero in accordance with the terms of the August 2016, 5-year gas franchise agreement.

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(PPL and PPL Electric)

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA, requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order which will remain in effect for up to six months and may be extended for an additional six months. The PUC anticipates that the process to determine the manner in which rates will be adjusted in response to the TCJA will require further review and analysis of the responses to data requests, financial information and public comments submitted in response to the Secretarial Letter. For the period ended March 31, 2018, PPL Electric has not recorded an accrual with respect to any potential rate adjustment due to the adoption of the TCJA, as PPL Electric believes it is not probable that a loss has been incurred. Under applicable law, it is reasonably possible that the PUC could seek to adjust rates as of March 15, 2018, the date of the Temporary Rates Order. In that case, PPL Electric's estimated maximum loss exposure would be the excess amounts collected in customer rates related to applicable federal income taxes since the date of the Temporary Rates Order, which amount is immaterial as of March 31, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. In a news release issued the same day, the FERC acknowledged that many transmission rates automatically adjust with changes in the tax rates and the adjustments for much of the industry are already taking place. PPL Electric has not made any submission in response to the Notice of Inquiry. On March 16, 2018, PPL Electric filed a waiver pursuant to Rule 207(a) (5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission with the FERC to request the incorporation of the changes to the federal income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA reduction in the federal income tax rate to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, which was inclusive of the federal income tax rate as set by the TCJA, on April 27, 2018.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three months ended March 31, 2018 and 2017, PPL Electric purchased \$376 million and \$356 million of accounts receivable from alternate suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and act as a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement, which are reflected in "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

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	March 31, 2018					December 31, 2017		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 145	£ —	£ 67	£ 148	£ —	
Term Loan Facility (b)	Dec. 2018	130	130	—	—	—	—	
WPD (South West)								
Syndicated Credit Facility	July 2021	245	—	—	245	—	—	
WPD (East Midlands)								
Syndicated Credit Facility (c)	July 2021	300	157	—	143	180	—	
WPD (West Midlands)								
Syndicated Credit Facility (d)	July 2021	300	65	—	235	120	—	
Uncommitted Credit Facilities		130	—	4	126	—	4	
Total U.K. Credit Facilities (e)		£ 1,315	£ 497	£ 4	£ 816	£ 448	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2023	\$ 950	\$ —	\$ 345	\$ 605	\$ —	\$ 230	
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility	Mar. 2019	100	—	24	76	—	18	
Total PPL Capital Funding Credit Facilities		\$ 1,350	\$ —	\$ 369	\$ 981	\$ —	\$ 248	
PPL Electric								
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 214	\$ 436	\$ —	\$ 1	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2023	\$ 500	\$ —	\$ 137	\$ 363	\$ —	\$ 199	
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 137	\$ 363	\$ 100	\$ 199	
KU								
Syndicated Credit Facility	Jan. 2023	\$ 400	\$ —	\$ 78	\$ 322	\$ —	\$ 45	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 276	\$ 322	\$ —	\$ 243	

- (a) The amounts borrowed at March 31, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.47% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £143 million as of the date borrowed.
- (b) The amount borrowed at March 31, 2018 was a GBP-denominated borrowing which equated to \$179 million and bore interest at 1.77%.
- (c) The amounts borrowed at March 31, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$216 million and \$244 million and bore interest at 0.90% and 0.89%.
- (d) The amounts borrowed at March 31, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$89 million and \$162 million and bore interest at 0.90% and 0.89%.
- (e) At March 31, 2018, the unused capacity under the U.K. credit facilities was \$1.1 billion.

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In January 2018, LG&E borrowed the remaining \$100 million available under its \$200 million term loan facility. The proceeds were used to repay short-term debt and for general corporate purposes.

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	March 31, 2018			December 31, 2017		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.44%	\$ 1,000	\$ 345	\$ 655	1.64%	\$ 230
PPL Electric	2.42%	650	213	437		—
LG&E	2.23%	350	137	213	1.83%	199
KU	2.35%	350	78	272	1.97%	45
Total		\$ 2,350	\$ 773	\$ 1,577		\$ 474

(PPL Electric, LKE, and LG&E)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2018, WPD (South Wales) issued £30 million of 0.01% Index-linked Senior Notes due 2036. WPD (South Wales) received proceeds of £31 million, which equated to \$44 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

(PPL, LKE and LG&E)

In March 2018, the County of Trimble, Kentucky remarketed \$28 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.30% through their mandatory purchase date of September 1, 2021.

In May 2018, the County of Trimble, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

In May 2018, the County of Jefferson, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

(LKE)

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. See Note 11 for more information related to intercompany borrowings.

(PPL)

ATM Program

In February 2018, PPL entered into a distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares sold with respect to the equity distribution agreement. PPL issued 3.0 million shares of common stock and received gross proceeds of \$85 million for the three months ended March 31, 2018.

Distributions

In February 2018, PPL declared a quarterly common stock dividend, payable April 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

9. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries, and LG&E for the periods ended March 31:

	Pension Benefits			
	Three Months			
	U.S.		U.K.	
	2018	2017	2018	2017
<u>PPL</u>				
Service cost	\$ 16	\$ 17	\$ 21	\$ 19
Interest cost	39	42	47	43
Expected return on plan assets	(62)	(57)	(150)	(125)
Amortization of:				
Prior service cost	2	2	—	—
Actuarial loss	22	20	39	35
Net periodic defined benefit costs (credits) before settlements and special termination benefits	17	24	(43)	(28)
Special termination benefits (a)	—	2	—	—
Net periodic defined benefit costs (credits)	<u>\$ 17</u>	<u>\$ 26</u>	<u>\$ (43)</u>	<u>\$ (28)</u>

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits	
	Three Months	
	2018	2017
<u>LKE</u>		
Service cost	\$ 7	\$ 7
Interest cost	16	16
Expected return on plan assets	(26)	(22)
Amortization of:		
Prior service cost	2	2
Actuarial loss (a)	10	11
Net periodic defined benefit costs	<u>\$ 9</u>	<u>\$ 14</u>

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$4 million and \$5 million for the three months ended March 31, 2018 and 2017. This difference is recorded as a regulatory asset.

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	Pension Benefits	
	Three Months	
	2018	2017
LG&E		
Interest cost	\$ 3	\$ 3
Expected return on plan assets	(5)	(5)
Amortization of:		
Prior service cost	1	1
Actuarial loss (a)	2	3
Net periodic defined benefit costs	<u>\$ 1</u>	<u>\$ 2</u>

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million for the three months ended March 31, 2018 and 2017. This difference is recorded as a regulatory asset.

	Other Postretirement Benefits	
	Three Months	
	2018	2017
PPL		
Service cost	\$ 1	\$ 2
Interest cost	3	6
Expected return on plan assets	(4)	(6)
Amortization of prior service cost	(1)	—
Net periodic defined benefit costs (credits)	<u>\$ (1)</u>	<u>\$ 2</u>

LKE		
Service cost	\$ 1	\$ 1
Interest cost	2	2
Expected return on plan assets	(2)	(1)
Net periodic defined benefit costs	<u>\$ 1</u>	<u>\$ 2</u>

(PPL Electric, LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 11 for additional information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months	
	2018	2017
PPL Electric	\$ 4	\$ 8
LG&E	2	3
KU	1	4

(All Registrants)

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

10. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Cane Run Environmental Claims *(PPL, LKE and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant, which had three coal-fired units retired in 2015. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

E.W. Brown Environmental Claims *(PPL, LKE and KU)*

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan, and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

Regulatory Issues *(All Registrants)*

See Note 7 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

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The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and an estimate or range of possible losses cannot be determined.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation

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plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

Ozone

The EPA issued the current ozone standard in October 2015. The states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment designations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. Although implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. Although PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E

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and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015 the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups,

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environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. On March 1, 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the outcome of the proposed rulemaking or potential impacts on current LG&E and KU compliance plans, revisions to the current rule could potentially result in additional costs.

In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain procedural elements of the new rule but finding the substantive requirements of the new rule to be consistent with those of the federal CCR rule. This ruling was not appealed by any party to the litigation and is now final. Accordingly, LG&E and KU presently operate their facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the judicial ruling. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR rule. The Kentucky Energy and Environmental Cabinet has indicated it may propose rules under such authority in the future.

LG&E and KU received KPSC approval for a compliance plan providing for the closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with the federal CCR rule, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law. On January 26, 2018, KU filed an application requesting a CPCN and approval of amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station. A hearing related to this matter is set for June 21, 2018. KU is unable to predict the outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operations.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 16 below and Note 19 in the Registrants' 2017 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

On February 20, 2018, the EPA issued a notice requesting comment on the scope of discharges subject to regulation under the Clean Water Act. Specifically, the EPA seeks comments on whether Clean Water Act jurisdiction should cover discharges to groundwater that reach surface water via a direct hydrologic connection. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the future regulatory developments or potential impacts on current LG&E and KU compliance plans.

ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been

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consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant. Currently the EPA is planning a review of part two later in 2018.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, implementing various preventative measures, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

As of March 31, 2018 and December 31, 2017, PPL Electric had a recorded liability of \$11 million and \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former

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coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary to comply with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be available to cover certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of March 31, 2018. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities." The total recorded liability at March 31, 2018 was \$7 million for PPL and not significant for LKE. The total recorded liability at December 31, 2017 was \$17 million for PPL and \$11 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at March 31, 2018</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 11 (b)	2020
WPD guarantee of pension and other obligations of unconsolidated entities	99 (c)	
<u>PPL Electric</u>		
Guarantee of inventory value	17 (d)	2020
<u>LKE</u>		
Indemnification of lease termination and other divestitures	201 (e)	2021
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(f)	

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- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits. In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 2018, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$117 million at March 31, 2018, consisting of LG&E's share of \$81 million and KU's share of \$36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2017 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended March 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

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	Three Months	
	2018	2017
PPL Electric from PPL Services	\$ 16	\$ 51
LKE from PPL Services	7	6
PPL Electric from PPL EU Services	35	18
LG&E from LKS	38	44
KU from LKS	42	44

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a \$400 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at March 31, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

(LKE)

LKE maintains a revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. In February 2018, the revolving line of credit was increased by \$25 million and the limit as of March 31, 2018 was \$300 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2018 and December 31, 2017, \$237 million and \$225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowing at March 31, 2018 and December 31, 2017 were 3.17% and 2.87%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At March 31, 2018 and December 31, 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$4 million for the three months ending March 31, 2018 and 2017.

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028 with interest due in May and November. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary.

Other *(PPL Electric, LG&E and KU)*

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

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12. Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the three months ended March 31, were:

	PPL	
	2018	2017
Other Income		
Defined benefit plans - non-service credits (Note 9)	\$ 68	\$ 38
AFUDC - equity component	5	2
Miscellaneous	1	9
Total Other Income	74	49
Other Expense		
Economic foreign currency exchange contracts (Note 14)	112	43
Charitable contributions	4	4
Miscellaneous	1	11
Total Other Expense	117	58
Other Income (Expense) - net	\$ (43)	\$ (9)

(PPL Electric)

The details of "Other Income (Expense) - net" for the three months ended March 31, were:

	PPL Electric	
	2018	2017
Other Income		
AFUDC - equity component	\$ 5	\$ 2
Defined benefit plans - non-service credits (Note 9)	2	—
Total Other Income	7	2
Other Expense		
Charitable contributions	1	1
Defined benefit plans - non-service costs (Note 9)	—	1
Total Other Expense	1	2
Other Income (Expense) - net	\$ 6	\$ —

13. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2018 and 2017, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2017 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	March 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 629	\$ 629	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	24	24	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	97	—	97	—	163	—	163	—
Cross-currency swaps	79	—	79	—	101	—	101	—
Total price risk management assets	176	—	176	—	264	—	264	—
Total assets	\$ 829	\$ 653	\$ 176	\$ —	\$ 775	\$ 511	\$ 264	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	167	—	167	—	148	—	148	—
Total price risk management liabilities	\$ 189	\$ —	\$ 189	\$ —	\$ 174	\$ —	\$ 174	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 22	\$ 22	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 27	\$ 27	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 27	\$ 27	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —

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	March 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,464	\$ 23,577	\$ 20,195	\$ 23,783
PPL Electric	3,298	3,632	3,298	3,769
LKE	5,259	5,654	5,159	5,670
LG&E	1,808	1,925	1,709	1,865
KU	2,329	2,546	2,328	2,605

- (a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that

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attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements *(PPL, LKE, LG&E and KU)*

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$16 million obligation to return cash collateral under master netting arrangements at March 31, 2018 and a \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2017.

PPL had a \$5 million obligation to post cash collateral under master netting arrangements at March 31, 2018 and no cash collateral posted under master netting arrangements at December 31, 2017.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at March 31, 2018 and December 31, 2017.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at March 31, 2018 and December 31, 2017.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at March 31, 2018.

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For the three months ended March 31, 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At March 31, 2018, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2018 and 2017, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three months ended March 31, 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three months ended March 31, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At March 31, 2018, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At March 31, 2018, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2018 had a notional amount of £140 million (approximately \$195 million based on contracted rates). The settlement dates of these contracts are in June 2018.

At March 31, 2018 and December 31, 2017, PPL had \$20 million and \$22 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2018, the total exposure hedged by PPL was approximately £2.1 billion (approximately \$2.9 billion based on contracted rates). These contracts have termination dates ranging from April 2018 through August 2020.

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Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2018 and December 31, 2017.

See Note 1 in each Registrant's 2017 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2018				December 31, 2017			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	4	—	—	—	4	—	—	—
Foreign currency contracts	1	2	51	75	—	—	45	67
Total current	5	2	51	79	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	18	—	—	—	22
Cross-currency swaps (b)	75	—	—	—	97	—	—	—
Foreign currency contracts	—	—	45	90	—	—	118	81
Total noncurrent	75	—	45	108	97	—	118	103
Total derivatives	\$ 80	\$ 2	\$ 96	\$ 187	\$ 101	\$ —	\$ 163	\$ 174

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended March 31, 2018.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest expense	\$ (2)	\$ —
Cross-currency swaps	(24)	Other income (expense) - net	(12)	—
Total	\$ (24)		\$ (14)	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ (1)			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ (112)
Interest rate swaps	Interest expense	(1)
	Total	\$ (113)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 4

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended March 31, 2017.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest expense	\$ (2)	\$ (1)
Cross-currency swaps	(8)	Interest expense	1	—
		Other income (expense) - net	3	—
Total	\$ (8)		\$ 2	\$ (1)
Net Investment Hedges:				
Foreign currency contracts	\$ —			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ (43)
Interest rate swaps	Interest expense	(2)
	Total	\$ (45)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 2

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(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	March 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	18	—	22
Total noncurrent	—	18	—	22
Total derivatives	\$ —	\$ 22	\$ —	\$ 26

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended March 31, 2018.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months
	Income on Derivatives		
Interest rate swaps	Interest expense		\$ (1)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months
	Regulatory Assets		
Interest rate swaps	Regulatory assets - noncurrent		\$ 4

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended March 31, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months
	Income on Derivatives		
Interest rate swaps	Interest expense		\$ (2)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months
	Regulatory Assets		
Interest rate swaps	Regulatory assets - noncurrent		\$ 2

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

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	Assets				Liabilities			
	Eligible for Offset			Net	Eligible for Offset			Net
	Gross	Derivative Instruments	Cash Collateral Received		Gross	Derivative Instruments	Cash Collateral Pledged	
March 31, 2018								
Treasury Derivatives								
PPL	\$ 176	\$ 78	\$ 16	\$ 82	\$ 189	\$ 78	\$ 5	\$ 106
LKE	—	—	—	—	22	—	—	22
LG&E	—	—	—	—	22	—	—	22
December 31, 2017								
Treasury Derivatives								
PPL	\$ 264	\$ 107	\$ 20	\$ 137	\$ 174	\$ 107	\$ —	\$ 67
LKE	—	—	—	—	26	—	—	26
LG&E	—	—	—	—	26	—	—	26

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At March 31, 2018, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 101	\$ 8	\$ 8
Aggregate fair value of collateral posted on these derivative instruments	10	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	91	8	8

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the three months ended March 31, 2018 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 10 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2017	\$ 397	\$ 356	\$ 121	\$ 235
Accretion	3	3	—	3
Effect of foreign exchange rates	1	—	—	—
Changes in estimated timing or cost (a)	(10)	(10)	(5)	(5)
Obligations settled	(9)	(9)	(5)	(4)
Balance at March 31, 2018	\$ 382	\$ 340	\$ 111	\$ 229

(a) LG&E and KU recorded decreases to the existing AROs during the three months ended March 31, 2018 primarily related to the closure of CCR impoundments and associated groundwater monitoring. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

17. Accumulated Other Comprehensive Income (Loss)

(PPL)

The after-tax changes in AOCI by component for the periods ended March 31 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
December 31, 2017	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the period	116	(20)	—	—	(1)	95
Reclassifications from AOCI	—	12	—	—	36	48
Net OCI during the period	116	(8)	—	—	35	143
March 31, 2018	\$ (973)	\$ (21)	\$ —	\$ (7)	\$ (2,278)	\$ (3,279)
December 31, 2016						
Amounts arising during the period	(24)	(6)	—	—	—	(30)
Reclassifications from AOCI	—	(1)	—	—	32	31
Net OCI during the period	(24)	(7)	—	—	32	1
March 31, 2017	\$ (1,651)	\$ (14)	\$ (1)	\$ (8)	\$ (2,103)	\$ (3,777)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended March 31. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during

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the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 9 for additional information.

Details about AOCI	Three Months		Affected Line Item on the Statements of Income
	2018	2017	
Qualifying derivatives			
Interest rate swaps	\$ (2)	\$ (3)	Interest Expense
Cross-currency swaps	(12)	3	Other Income (Expense) - net
	—	1	Interest Expense
Total Pre-tax	(14)	1	
Income Taxes	2	—	
Total After-tax	(12)	1	
Defined benefit plans			
Net actuarial loss	(45)	(41)	
Total Pre-tax	(45)	(41)	
Income Taxes	9	9	
Total After-tax	(36)	(32)	
Total reclassifications during the period	\$ (48)	\$ (31)	

18. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. One of these practical expedients allows entities to elect to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB also issued additional guidance that provides for a practical expedient that allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. The Registrants plan to elect these practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

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For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance in beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL and LKE)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The adoption of this guidance will result in PPL and LKE reclassifying \$50 million and \$18 million of deferred tax effects (primarily related to pension and other post-retirement benefits) stranded in AOCI as a result of the TCJA to retained earnings. The Registrants are assessing the period in which they will adopt this guidance.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2017 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2018 with the same period in 2017. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

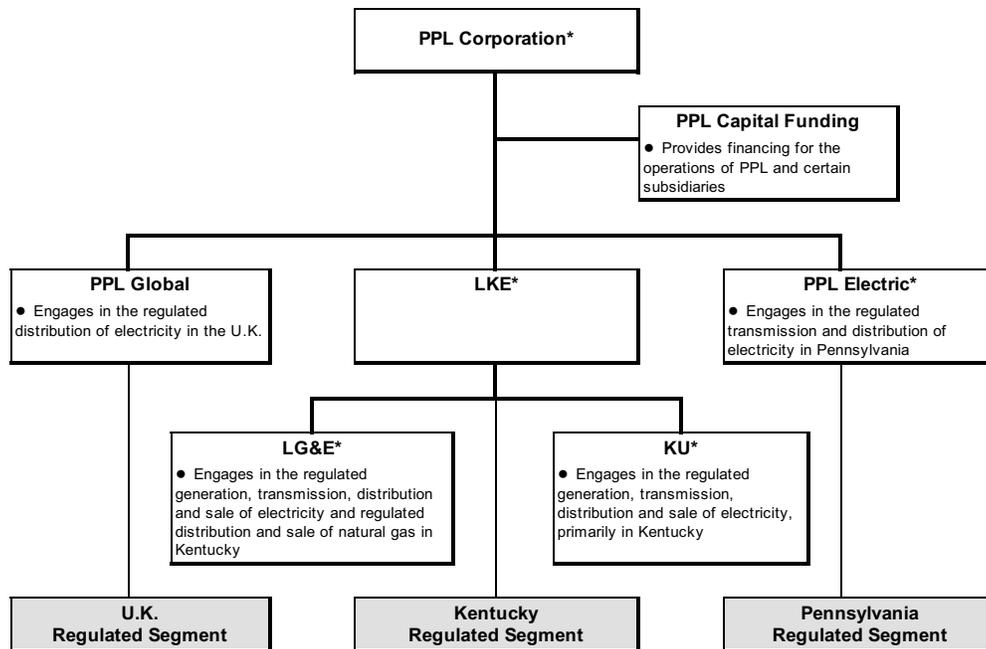
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).



PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. PPL Global is not a Registrant. Unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL's businesses are fully regulated and operate seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. PPL believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K., driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period, which ends on March 31, 2023, and to result in earnings growth in 2018 through at least 2020. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2017 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Substantially all of the provisions of the TCJA, signed into law on December 22, 2017, are effective for taxable years beginning after December 31, 2017 and, to the extent such provisions are relevant to the Registrants, their impact has been reflected in the financial results for the first quarter of 2018. With respect to the TCJA provisions applicable to the period ended December 31, 2017, although additional guidance has been issued by the U.S. Department of the Treasury and the IRS concerning the application or operation of those provisions, such guidance has not materially impacted the related amounts reported in the Registrants' financial statements for the period ended March 31, 2018.

Kentucky Tax Reform (All Registrants)

On April 14, 2018, the Kentucky House of Representatives and Kentucky Senate passed House Bill 487 (HB 487). HB 487 provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. HB 487 became law on April 27, 2018. LKE continues to evaluate the impacts of Kentucky tax reform, but expects to incur a deferred tax charge of approximately \$9 million in the second quarter of 2018 associated with the remeasurement of accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. LG&E and KU currently estimate the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, to be an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of April 27, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.32 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 50% hedged for 2020 at an average rate of \$1.49 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

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Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL)

RIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIO-ED1 mid-period review (MPR). The RIO framework allows for an MPR of outputs halfway through the price control. Ofgem was consulting on three potential approaches:

- whether to implement an MPR as currently defined;
- whether to implement an MPR with an extension for WPD rail electrification; and
- whether to implement an MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication was that an MPR as currently defined under RIO-ED1 was not required. In addition, Ofgem recognized that the U.K. rail electrification program applicable in the WPD distribution areas was outside the scope of the MPR and that implementing an MPR to include financial parameters could undermine the stability of the regulatory regime. The consultation, however, requested interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses were submitted by PPL and WPD. On April 30, 2018, Ofgem announced its decision not to conduct an MPR.

RIO-2 Framework Review

On March 7, 2018, Ofgem issued its consultation document on the RIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. Ofgem is consulting on a wide range of issues, including cost of debt and equity methodologies, the length of the price control period, indexation methodologies, innovation, stakeholder engagement in the business planning process and performance incentive mechanisms. The purpose of the RIO-2 framework consultation is to build on lessons learned from the current price controls while supporting low costs to consumers, improved customer service and reliability, and the U.K.'s continued shift to a low-carbon future. Comments on the RIO-2 framework were due by May 2, 2018. The promulgation of sector-specific price controls will begin with the gas and electricity transmission networks in 2018, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIO-ED2 strategy consultation document.

The current electricity distribution price control, RIO-ED1, continues through March 31, 2023 and will not be impacted by this RIO-2 consultation process. PPL cannot predict the outcome of this process or the long-term impact it or the final RIO-ED2 regulations will have on its financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 10 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(LKE and KU)

In September 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. On March 22, 2018, KU reached a settlement agreement regarding the case, including the impact of the TCJA on rates, resulting in an increase in annual Virginia base electricity revenue by \$2 million. This represents an increase of 2.8% with rates effective June 1, 2018. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve the settlement agreement.

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TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issue related to the TCJA. A hearing on this matter is scheduled for May 24, 2018.

LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its ongoing rate case in Virginia. New rates, inclusive of TCJA impacts, will be effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect will be addressed through KU's annual information filing for calendar year 2018. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

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TCJA Impact on PPL Electric Rates (PPL and PPL Electric)

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA, requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order which will remain in effect for up to six months and may be extended for an additional six months. The PUC anticipates that the process to determine the manner in which rates will be adjusted in response to the TCJA will require further review and analysis of the responses to data requests, financial information and public comments submitted in response to the Secretarial Letter. For the period ended March 31, 2018, PPL Electric has not recorded an accrual with respect to any potential rate adjustment due to the adoption of the TCJA, as PPL Electric believes it is not probable that a loss has been incurred. Under applicable law, it is reasonably possible that the PUC could seek to adjust rates as of March 15, 2018, the date of the Temporary Rates Order. In that case, PPL Electric's estimated maximum loss exposure would be the excess amounts collected in customer rates related to applicable federal income taxes since the date of the Temporary Rates Order, which amount is immaterial as of March 31, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. In a news release issued the same day, the FERC acknowledged that many transmission rates automatically adjust with changes in the tax rates and the adjustments for much of the industry are already taking place. PPL Electric has not made any submission in response to the Notice of Inquiry. On March 16, 2018, PPL Electric filed a waiver pursuant to Rule 207(a) (5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission with the FERC to request the incorporation of the changes to the federal income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA reduction in the federal income tax rate to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, which was inclusive of the federal income tax rate as set by the TCJA, on April 27, 2018.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2018 with the same period in 2017. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Adjusted Gross Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Adjusted Gross Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2018 with the same period in 2017. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 2,126	\$ 1,951	\$ 175
Operating Expenses			
Operation			
Fuel	214	191	23
Energy purchases	241	215	26
Other operation and maintenance	468	470	(2)
Depreciation	269	242	27
Taxes, other than income	83	75	8
Total Operating Expenses	1,275	1,193	82
Other Income (Expense) - net	(43)	(9)	(34)
Interest Expense	239	217	22
Income Taxes	117	129	(12)
Net Income	\$ 452	\$ 403	\$ 49

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Domestic:	
PPL Electric Distribution volume	\$ 20
PPL Electric PLR Revenue (a)	17
PPL Electric Transmission Formula Rate	28
LKE Volumes	67
LKE Base rates	30
LKE TCJA (b)	(34)
Total Domestic	128
U.K.:	
Price	(10)
Volume	(8)
Foreign currency exchange rates	58
Other	7
Total U.K.	47
Total	\$ 175

(a) The increase was primarily due to higher energy volumes at PPL Electric.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$23 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

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Energy Purchases

Energy purchases increased \$26 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$15 million increase in PLR volumes at PPL Electric and a \$20 million increase in natural gas volumes at LG&E driven by colder weather in 2018, partially offset by an \$8 million decrease in market prices for natural gas at LG&E.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Domestic:	
PPL Electric Act 129	\$ (3)
PPL Electric payroll-related costs	(13)
PPL Electric vegetation management	(5)
Other	(2)
U.K.:	
Foreign currency exchange rates	11
Third-party engineering	5
Other	5
Total	<u>\$ (2)</u>

Depreciation

Depreciation increased \$27 million for the three months ended March 31, 2018 compared with 2017, primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program at PPL Electric, higher depreciation rates effective July 1, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Pennsylvania gross receipts tax	\$ 3
Foreign currency exchange rates	3
Other	2
Total	<u>\$ 8</u>

Other Income (Expense) - net

Other income (expense) - net decreased \$34 million for the three months ended March 31, 2018 compared with 2017, primarily due to higher realized and unrealized losses on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$69 million, partially offset by an increase in non-service cost credits from defined benefit plans of \$30 million.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Long-term debt interest expense	\$ 12
Foreign currency exchange rates	9
Other	1
Total	<u>\$ 22</u>

[Table of Contents](#)**Income Taxes**

The increase (decrease) in income taxes for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Change in pre-tax income	\$ 8
Reduction in U.S. federal income tax rate	(32)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	10
Depreciation and other items not normalized (b)	(9)
Stock-based compensation	4
Other	7
Total	\$ (12)

(a) The increase is primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017.

(b) The decrease is primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, on the flow-through of tax benefits associated with the regulatory treatment of taxes on plant related activity.

Segment Earnings

PPL's net income by reportable segments for the period ended March 31 were as follows:

	Three Months		
	2018	2017	\$ Change
U.K. Regulated	\$ 197	\$ 286	\$ (89)
Kentucky Regulated	133	95	38
Pennsylvania Regulated	148	79	69
Corporate and Other (a)	(26)	(57)	31
Net Income	\$ 452	\$ 403	\$ 49

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The change in 2018 compared with 2017 is primarily due to the utilization of an estimated tax rate, which required tax benefits realized in the first quarter of 2017 to be recognized over the annual period.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of

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PPL's underlying hedged earnings. See Note 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the period ended March 31 were as follows:

	Three Months		
	2018	2017	\$ Change
U.K. Regulated	\$ 262	\$ 307	\$ (45)
Kentucky Regulated	133	96	37
Pennsylvania Regulated	148	79	69
Corporate and Other	(26)	(57)	31
Earnings from Ongoing Operations	\$ 517	\$ 425	\$ 92

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 44% of PPL's Net Income for the three months ended March 31, 2018 and 41% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 615	\$ 568	\$ 47
Other operation and maintenance	132	107	25
Depreciation	62	55	7
Taxes, other than income	34	31	3
Total operating expenses	228	193	35
Other Income (Expense) - net	(47)	—	(47)
Interest Expense	107	94	13
Income Taxes	36	(5)	41
Net Income	197	286	(89)
Less: Special Items	(65)	(21)	(44)
Earnings from Ongoing Operations	\$ 262	\$ 307	\$ (45)

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2018	2017
Foreign currency economic hedges, net of tax of \$17, \$12 (a)	Other Income (Expense) - net	\$ (65)	\$ (21)
Total Special Items		\$ (65)	\$ (21)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Adjusted Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

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	<u>Three Months</u>
U.K.	
U.K. Adjusted Gross Margins	\$ (17)
Other operation and maintenance	(5)
Depreciation	—
Other Income (Expense) - net	15
Interest expense	(4)
Other	(1)
Income taxes	(5)
U.S.	
Income taxes	(43)
Foreign currency exchange, after-tax	15
Earnings from Ongoing Operations	(45)
Special items, after-tax	(44)
Net Income	<u>\$ (89)</u>

U.K.

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher other income (expense) - net primarily due to \$15 million from higher pension income due to an increase in expected returns on higher asset balances.
- Higher income taxes primarily due to an increase of \$9 million related to accelerated tax deductions in the first quarter of 2017.

U.S.

- Higher income taxes primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$7 million increase from a reduction in tax benefits on interest deductibility due to the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 29% of PPL's Net Income for the three months ended March 31, 2018 and 34% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

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	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 872	\$ 809	\$ 63
Fuel	214	191	23
Energy purchases	80	69	11
Other operation and maintenance	205	205	—
Depreciation	117	105	12
Taxes, other than income	17	16	1
Total operating expenses	633	586	47
Other Income (Expense) - net	(3)	(4)	1
Interest Expense	67	65	2
Income Taxes	36	59	(23)
Net Income	133	95	38
Less: Special Items	—	(1)	1
Earnings from Ongoing Operations	\$ 133	\$ 96	\$ 37

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2018	2017
Adjustment to investment, net of tax of \$0, \$0 (a)	Other Income (Expense) - net	\$ —	\$ (1)
Total Special Items		\$ —	\$ (1)

(a) KU recorded a write-off of an equity method investment.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Adjusted Gross Margins and the item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months
Kentucky Adjusted Gross Margins	\$ 28
Other operation and maintenance	(1)
Depreciation	(11)
Interest Expense	(2)
Income Taxes	23
Earnings from Ongoing Operations	37
Special items, after-tax	1
Net Income	\$ 38

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher depreciation expense primarily due to higher depreciation rates effective July 1, 2017, and additions to PP&E, net of retirements.
- Lower income taxes primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 33% of PPL's Net Income for the three months ended March 31, 2018 and 24% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

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	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 639	\$ 573	\$ 66
Energy purchases	161	146	15
Other operation and maintenance	133	163	(30)
Depreciation	85	75	10
Taxes, other than income	32	29	3
Total operating expenses	411	413	(2)
Other Income (Expense) - net	6	—	6
Interest Expense	37	33	4
Income Taxes	49	48	1
Net Income	148	79	69
Less: Special Items (a)	—	—	—
Earnings from Ongoing Operations	\$ 148	\$ 79	\$ 69

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Adjusted Gross Margins	\$ 48
Other operation and maintenance	27
Depreciation	(6)
Taxes, other than income	(1)
Other Income (Expense) - net	6
Interest Expense	(4)
Income Taxes	(1)
Net Income	\$ 69

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Lower other operation and maintenance expense primarily due to \$16 million of lower corporate service costs allocated to PPL Electric and \$13 million of lower payroll related expenses.
- Income taxes are relatively flat due to an increase in pre-tax income resulting in \$29 million of additional tax, partially offset by the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, of \$25 million.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended March 31.

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	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 197	\$ 133	\$ 148	\$ (26)	\$ 452
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$17	(65)	—	—	—	(65)
Total Special Items	(65)	—	—	—	(65)
Earnings from Ongoing Operations	\$ 262	\$ 133	\$ 148	\$ (26)	\$ 517

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 286	\$ 95	\$ 79	\$ (57)	\$ 403
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$12	(21)	—	—	—	(21)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(21)	(1)	—	—	(22)
Earnings from Ongoing Operations	\$ 307	\$ 96	\$ 79	\$ (57)	\$ 425

Adjusted Gross Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

[Table of Contents](#)**Changes in Adjusted Gross Margins**

The following table shows Adjusted Gross Margins by PPL's reportable segment and by component, as applicable, for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months		
	2018	2017	\$ Change
U.K. Regulated			
U.K. Adjusted Gross Margins	\$ 572	\$ 536	\$ 36
Impact of changes in foreign currency exchange rates			53
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ (17)
Kentucky Regulated			
Kentucky Adjusted Gross Margins			
LG&E	\$ 241	\$ 226	\$ 15
KU	294	281	13
Total Kentucky Adjusted Gross Margins	\$ 535	\$ 507	\$ 28
Pennsylvania Regulated			
Pennsylvania Adjusted Gross Margins			
Distribution	\$ 278	\$ 258	\$ 20
Transmission	136	108	28
Total Pennsylvania Adjusted Gross Margins	\$ 414	\$ 366	\$ 48

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased primarily due to \$10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue, and \$8 million of lower volumes.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased primarily due to \$31 million of increased sales volumes related to colder weather in 2018 (\$8 million at LG&E and \$23 million at KU) and higher base rates of \$30 million (\$17 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, partially offset by \$34 million of estimated income tax savings owed to customers (\$16 million at LG&E and \$18 million at KU) through the new TCJA bill credit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Pennsylvania Adjusted Gross Margins**Distribution**

Distribution adjusted gross margins increased primarily due to \$14 million of higher electricity sales volumes due to favorable weather in 2018 and \$3 million of returns on additional Smart Meter capital investments.

Transmission

Transmission adjusted gross margins increased primarily due to an increase of \$22 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and a \$6 million increase as a result of a higher PPL zonal peak load billing factor in the first quarter of 2018.

Reconciliation of Adjusted Gross Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended March 31.

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	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 604 (c)	\$ 872	\$ 639	\$ 11	\$ 2,126
Operating Expenses					
Fuel	—	214	—	—	214
Energy purchases	—	80	161	—	241
Other operation and maintenance	32	25	26	385	468
Depreciation	—	17	8	244	269
Taxes, other than income	—	1	30	52	83
Total Operating Expenses	32	337	225	681	1,275
Total	\$ 572	\$ 535	\$ 414	\$ (670)	\$ 851

	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 559 (c)	\$ 809	\$ 573	\$ 10	\$ 1,951
Operating Expenses					
Fuel	—	191	—	—	191
Energy purchases	—	69	146	—	215
Other operation and maintenance	23	26	29	392	470
Depreciation	—	16	4	222	242
Taxes, other than income	—	—	28	47	75
Total Operating Expenses	23	302	207	661	1,193
Total	\$ 536	\$ 507	\$ 366	\$ (651)	\$ 758

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$11 million and \$9 million for the three months ended March 31, 2018 and 2017.

2018 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be lower, driven primarily by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses, partially offset by an assumed return to normal weather and higher base electricity and gas rates effective July 1, 2017.

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(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, primarily driven by higher transmission earnings and lower operation and maintenance expense, partially offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be flat in 2018 compared to 2017, due to a lower tax shield on holding company interest expense offset by lower financing costs.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 7 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2017 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 639	\$ 573	\$ 66
Operating Expenses			
Operation			
Energy purchases	161	146	15
Other operation and maintenance	133	163	(30)
Depreciation	85	75	10
Taxes, other than income	32	29	3
Total Operating Expenses	411	413	(2)
Other Income (Expense) - net	6	—	6
Interest Expense	37	33	4
Income Taxes	49	48	1
Net Income	\$ 148	\$ 79	\$ 69

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Distribution volume	\$ 20
PLR (a)	17
Transmission Formula Rate	28
Other	1
Total	\$ 66

(a) The increase for the three month period was primarily due to higher energy volumes as described below.

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Energy Purchases

Energy purchases increased \$15 million for the three months ended March 31, 2018 compared with 2017, primarily due to higher PLR volumes.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Corporate service costs	\$ (16)
Vegetation management	(5)
Storm costs	4
Payroll-related costs	(13)
Act 129	(3)
Bad debts	3
Total	<u>\$ (30)</u>

Depreciation

Depreciation increased \$10 million for the three months ended March 31, 2018 compared with 2017, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Other Income (Expense) - net

Other income (expense) - net increased \$6 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$3 million increase related to higher AFUDC equity rates and a \$3 million increase in non-service cost credits from defined benefit plans.

Interest Expense

Interest expense increased \$4 million for the three months ended March 31, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Change in pre-tax income	\$ 29
Reduction in U.S. federal income tax rate	(25)
Depreciation and other items not normalized (a)	(5)
Other	2
Total	<u>\$ 1</u>

(a) The decrease is primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, on the flow-through of tax benefits associated with the regulatory treatment of taxes on plant related activity.

Earnings

	Three Months Ended	
	March 31,	
	2018	2017
Net Income	\$ 148	\$ 79
Special items, gains (losses), after-tax (a)	—	—

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(a) There are no items that management considers special for the periods presented.

Earnings increased for the three month period in 2018 compared with 2017, driven primarily by higher revenues and lower operation and maintenance expense. The higher revenues were driven by returns on additional capital investments in transmission and higher sales volumes in distribution due to favorable weather.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Adjusted Gross Margins	\$ 48
Other operation and maintenance	27
Depreciation	(6)
Taxes, other than income	(1)
Other Income (Expense) - net	6
Interest Expense	(4)
Income Taxes	(1)
Net Income	\$ 69

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods. Within PPL's discussion, PPL Electric's Adjusted Gross Margins are referred to as "Pennsylvania Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 639	\$ —	\$ 639	\$ 573	\$ —	\$ 573
Operating Expenses						
Energy purchases	161	—	161	146	—	146
Other operation and maintenance	26	107	133	29	134	163
Depreciation	8	77	85	4	71	75
Taxes, other than income	30	2	32	28	1	29
Total Operating Expenses	225	186	411	207	206	413
Total	\$ 414	\$ (186)	\$ 228	\$ 366	\$ (206)	\$ 160

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Adjusted Gross Margins**Statement of Income Analysis**

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 872	\$ 809	\$ 63
Operating Expenses			
Operation			
Fuel	214	191	23
Energy purchases	80	69	11
Other operation and maintenance	205	205	—
Depreciation	117	105	12
Taxes, other than income	17	16	1
Total Operating Expenses	633	586	47
Other Income (Expense) - net	(3)	(4)	1
Interest Expense	50	49	1
Interest Expense with Affiliate	5	4	1
Income Taxes	39	63	(24)
Net Income	\$ 142	\$ 103	\$ 39

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Volumes	\$ 67
Base rates	30
TCJA (a)	(34)
Total	\$ 63

(a) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$23 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

Energy Purchases

Energy purchases increased \$11 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$20 million increase in natural gas volumes driven by colder weather in 2018, partially offset by an \$8 million decrease in market prices for natural gas.

Depreciation

Depreciation increased \$12 million for the three months ended March 31, 2018 compared with 2017, primarily due to an \$8 million increase related to higher depreciation rates effective July 1, 2017 and a \$3 million increase related to additions to PP&E, net of retirements.

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Income Taxes

Income taxes decreased \$24 million for the three months ended March 31, 2018 compared with 2017, primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Earnings

	Three Months Ended March 31,	
	2018	2017
Net Income	\$ 142	\$ 103
Special items, gains (losses), after-tax	—	(1)

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity and gas rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S. federal corporate income tax rate effective January 1, 2018, partially offset by higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months
Adjusted Gross Margins	\$ 28
Other operation and maintenance	(1)
Depreciation	(11)
Interest Expense	(2)
Income Taxes	24
Special items, gains (losses), after-tax (a)	1
Net Income	<u>\$ 39</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Adjusted Gross Margins are referred to as "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 872	\$ —	\$ 872	\$ 809	\$ —	\$ 809
Operating Expenses						
Fuel	214	—	214	191	—	191
Energy purchases	80	—	80	69	—	69
Other operation and maintenance	25	180	205	26	179	205
Depreciation	17	100	117	16	89	105
Taxes, other than income	1	16	17	—	16	16
Total Operating Expenses	<u>337</u>	<u>296</u>	<u>633</u>	<u>302</u>	<u>284</u>	<u>586</u>
Total	<u>\$ 535</u>	<u>\$ (296)</u>	<u>\$ 239</u>	<u>\$ 507</u>	<u>\$ (284)</u>	<u>\$ 223</u>

(a) Represents amounts excluded from Adjusted Gross Margins.

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(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues			
Retail and wholesale	\$ 407	\$ 374	\$ 33
Electric revenue from affiliate	12	17	(5)
Total Operating Revenues	419	391	28
Operating Expenses			
Operation			
Fuel	79	80	(1)
Energy purchases	76	64	12
Energy purchases from affiliate	6	2	4
Other operation and maintenance	89	85	4
Depreciation	48	44	4
Taxes, other than income	9	8	1
Total Operating Expenses	307	283	24
Other Income (Expense) - net	(1)	(4)	3
Interest Expense	18	17	1
Income Taxes	21	33	(12)
Net Income	\$ 72	\$ 54	\$ 18

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Volumes	\$ 28
Base rates	16
TCJA (a)	(16)
Total	\$ 28

(a) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Energy Purchases

Energy purchases increased \$12 million for the three months ended March 31, 2018 compared with 2017, due to a \$20 million increase in natural gas volumes driven by colder weather in 2018, partially offset by an \$8 million decrease in market prices for natural gas.

Energy Purchases from Affiliate

Energy purchases from affiliate increased \$4 million for the three months ended March 31, 2018 compared with 2017, primarily due to increased generation available from KU.

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Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended March 31, 2018 compared with 2017 was due to:

	Three Months
Timing and scope of generation maintenance outages	1
Storm costs	1
Other	2
Total	<u>\$ 4</u>

Depreciation

Depreciation increased \$4 million for the three months ended March 31, 2018 compared with 2017, due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Income Taxes

Income taxes decreased \$12 million for the three months ended March 31, 2018 compared with 2017, primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Earnings

	Three Months Ended	
	March 31,	
	2018	2017
Net Income	\$ 72	\$ 54
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity and gas rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S. federal corporate income tax rate effective January 1, 2018, partially offset by higher depreciation expense and higher other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Adjusted Gross Margins	\$ 15
Other operation and maintenance	(5)
Depreciation	(5)
Taxes, other than income	(1)
Other Income (Expense) - net	3
Interest Expense	(1)
Income Taxes	12
Net Income	<u>\$ 18</u>

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why

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management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 419	\$ —	\$ 419	\$ 391	\$ —	\$ 391
Operating Expenses						
Fuel	79	—	79	80	—	80
Energy purchases, including affiliate	82	—	82	66	—	66
Other operation and maintenance	9	80	89	10	75	85
Depreciation	8	40	48	9	35	44
Taxes, other than income	—	9	9	—	8	8
Total Operating Expenses	178	129	307	165	118	283
Total	\$ 241	\$ (129)	\$ 112	\$ 226	\$ (118)	\$ 108

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues			
Retail and wholesale	\$ 465	\$ 435	\$ 30
Electric revenue from affiliate	6	2	4
Total Operating Revenues	471	437	34
Operating Expenses			
Operation			
Fuel	135	111	24
Energy purchases	4	5	(1)
Energy purchases from affiliate	12	17	(5)
Other operation and maintenance	105	108	(3)
Depreciation	68	60	8
Taxes, other than income	8	8	—
Total Operating Expenses	332	309	23
Other Income (Expense) - net	(3)	(2)	(1)
Interest Expense	25	24	1
Income Taxes	24	39	(15)
Net Income	\$ 87	\$ 63	\$ 24

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

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	Three Months	
Volumes	\$	38
Base rates		14
TCJA (a)		(18)
Total	\$	34

(a) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$24 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased \$5 million for the three months ended March 31, 2018 compared with 2017, primarily due to increased generation by KU.

Depreciation

Depreciation increased \$8 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$6 million increase related to higher depreciation rates effective July 1, 2017.

Income Taxes

Income taxes decreased \$15 million for the three months ended March 31, 2018 compared with 2017, primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Earnings

	Three Months Ended	
	March 31,	
	2018	2017
Net Income	\$ 87	\$ 63
Special items, gains (losses), after-tax	—	(1)

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S federal corporate income tax rate effective January 1, 2018, partially offset by higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	
Adjusted Gross Margins	\$	13
Other operation and maintenance		3
Depreciation		(6)
Taxes, other than income		1
Other Income (Expense) - net		(2)
Interest Expense		(1)
Income Taxes		15
Special items, gains (losses), after-tax (a)		1
Net Income	\$	24

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(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 471	\$ —	\$ 471	\$ 437	\$ —	\$ 437
Operating Expenses						
Fuel	135	—	135	111	—	111
Energy purchases, including affiliate	16	—	16	22	—	22
Other operation and maintenance	16	89	105	16	92	108
Depreciation	9	59	68	7	53	60
Taxes, other than income	1	7	8	—	8	8
Total Operating Expenses	177	155	332	156	153	309
Total	\$ 294	\$ (155)	\$ 139	\$ 281	\$ (153)	\$ 128

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
March 31, 2018					
Cash and cash equivalents	\$ 629	\$ 20	\$ 27	\$ 14	\$ 11
Short-term debt	1,457	213	215	137	78
Long-term debt due within one year	250	—	—	—	—
Notes payable with affiliates	—	—	237	—	—
December 31, 2017					
Cash and cash equivalents	\$ 485	\$ 49	\$ 30	\$ 15	\$ 15
Short-term debt	1,080	—	244	199	45
Long-term debt due within one year	348	—	98	98	—
Notes payable with affiliates	—	—	225	—	—

(a) At March 31, 2018, \$263 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 5 to the Financial Statements in PPL's 2017 Form 10-K for additional information on undistributed earnings of WPD.

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Net cash provided by (used in) operating, investing and financing activities for the three month periods ended March 31, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2018					
Operating activities	\$ 566	\$ 76	\$ 278	\$ 146	\$ 185
Investing activities	(753)	(246)	(294)	(150)	(143)
Financing activities	331	141	13	3	(46)
2017					
Operating activities	\$ 135	\$ 55	\$ 312	\$ 142	\$ 139
Investing activities	(679)	(276)	(184)	(94)	(89)
Financing activities	607	228	(126)	(49)	(50)
Change - Cash Provided (Used)					
Operating activities	\$ 431	\$ 21	\$ (34)	\$ 4	\$ 46
Investing activities	(74)	30	(110)	(56)	(54)
Financing activities	(276)	(87)	139	52	4

Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2018 compared with 2017 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ 49	\$ 69	\$ 39	\$ 18	\$ 24
Non-cash components	(64)	(20)	(35)	(20)	(33)
Working capital	127	4	57	63	84
Defined benefit plan funding	370	(4)	(86)	(54)	(28)
Other operating activities	(51)	(28)	(9)	(3)	(1)
Total	<u>\$ 431</u>	<u>\$ 21</u>	<u>\$ (34)</u>	<u>\$ 4</u>	<u>\$ 46</u>

(PPL)

PPL's cash provided by operating activities in 2018 increased \$431 million compared with 2017.

- Net income increased \$49 million between periods and included a decrease in non-cash charges of \$64 million. The decrease in non-cash charges was primarily due to a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans in 2017 and book versus tax plant timing differences and net operating losses at EU) and an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances), partially offset by an increase in unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD).
- The \$127 million increase in cash from changes in working capital was primarily due to a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to an increase in current income tax benefits in 2017).
- Defined benefit plan funding was \$370 million lower in 2018. The decrease was primarily due to the acceleration of WPD's contributions to its U.K. pension plans in 2017.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2018 increased \$21 million compared with 2017.

- Net income increased \$69 million between the periods and included a decrease in non-cash charges of \$20 million. The decrease in non-cash charges was primarily driven by a \$20 million decrease in deferred income taxes (primarily due to book versus tax plant timing differences and net operating losses).

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- The \$28 million decrease in cash provided by other operating activities was primarily due to an increase in non-current regulatory assets (primarily due to \$17 million of storm costs incurred in March 2018).

(LKE)

LKE's cash provided by operating activities in 2018 decreased \$34 million compared with 2017.

- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), an increase in accounts payable (primarily due to timing of payments) and an increase in taxes payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (primarily due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$86 million higher in 2018.

(LG&E)

LG&E's cash provided by operating activities in 2018 increased \$4 million compared with 2017.

- The increase in cash from changes in working capital was primarily driven by lower tax payments in 2018 compared with 2017, a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (primarily due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$54 million higher in 2018.

(KU)

KU's cash provided by operating activities in 2018 increased \$46 million compared with 2017.

- The increase in cash from changes in working capital was primarily driven by an increase in taxes payable (primarily due to the timing of payments), a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms) and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to the timing of payments).
- Defined benefit plan funding was \$28 million higher in 2018.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the three months ended March 31, 2018 compared with 2017 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ (73)	\$ 29	\$ (110)	\$ (56)	\$ (54)

For PPL, the increase in expenditures was due to higher project expenditures at LKE, LG&E and KU partially offset by lower project expenditures at PPL Electric and WPD. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to the ongoing efforts to improve reliability and replace aging infrastructure. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability partially offset by an increase in foreign currency exchange rates. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and increased spending for environmental water projects at KU's Ghent plant.

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Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2018 compared with 2017 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 80	\$ —	\$ 100	\$ 100	\$ —
Stock issuances/redemptions, net	27	—	—	—	—
Dividends	(15)	4	—	53	(9)
Capital contributions/distributions, net		(100)	33	—	—
Change in short-term debt, net	(375)	9	(87)	(100)	13
Notes payable with affiliate		—	93	—	—
Other financing activities	7	—	—	(1)	—
Total	\$ (276)	\$ (87)	\$ 139	\$ 52	\$ 4

See Note 8 to the Financial Statements in this Form 10-Q for information on 2018 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 7 to the Financial Statements in the Registrants' 2017 Form 10-K for information on 2017 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At March 31, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,350	\$ —	\$ 369	\$ 981
PPL Electric Credit Facility	650	—	214	436
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	700	200	137	363
KU Credit Facilities	598	—	276	322
Total LKE	1,373	200	413	760
Total U.S. Credit Facilities (a)	\$ 3,373	\$ 200	\$ 996	\$ 2,177
Total U.K. Credit Facilities (b)	£ 1,185	£ 497	£ —	£ 690

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 18%, LG&E - 33% and KU - 37%.
- (b) The amounts borrowed at March 31, 2018 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$484 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £143 million as of the date borrowed. At March 31, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$949 million.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

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Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 300	\$ 237	\$ —	\$ 63
LG&E Money Pool (a)	500	—	137	363
KU Money Pool (a)	500	—	78	422

(a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper *(All Registrants)*

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at March 31, 2018:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 345	\$ 655
PPL Electric	650	213	437
LG&E	350	137	213
KU	350	78	272
Total LKE	700	215	485
Total PPL	\$ 2,350	\$ 773	\$ 1,577

Long-term Debt *(All Registrants)*

See Note 8 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

ATM Program

For the three months ended March 31, 2018, PPL issued 3.0 million shares of common stock and received proceeds of \$85 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In February 2018, PPL declared a quarterly common stock dividend, payable April 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

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A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2018:

(PPL)

In March 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £30 million 0.01% Index-linked Senior Notes due 2036.

(LG&E)

In February 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$28 million 2.30% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Jefferson, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at March 31, 2018.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2017 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

The following interest rate hedges were outstanding at March 31, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	702	80	(85)	2028
Economic hedges				
Interest rate swaps (d)	147	(23)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(23)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(23)	(2)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at March 31, 2018 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at March 31, 2018 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 629
PPL Electric	163
LKE	171
LG&E	63
KU	94

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in and earnings of U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including

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translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at March 31, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Net investment hedges (b)	£ 140	\$ (1)	\$ (20)	2018
Economic hedges (c)	2,094	(69)	(276)	2020

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.

(c) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2017 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$117 million for the three months ended March 31, 2018, which primarily reflected a \$212 million increase to PP&E and a \$44 million increase to goodwill partially offset by a \$125 million increase to long-term debt and a \$14 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$24 million for the three months ended March 31, 2017, which primarily reflected a \$46 million decrease to PP&E and \$10 million decrease to goodwill partially offset by a \$28 million decrease to long-term debt and a \$4 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

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Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2017 Form 10-K for information on the more significant activities.

Environmental Matters *(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 10 to the Financial Statements for a discussion of the more significant environmental matters including Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

New Accounting Guidance *(All Registrants)*

See Note 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2017 Form 10-K for a discussion of each critical accounting policy.

	PPL	PPL Electric	LKE	LG&E	KU
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Regulatory Assets and Liabilities	X	X	X	X	X
Price Risk Management	X				
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2018, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving tax litigation, regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2017 Form 10-K; and
- Notes 7 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2017 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

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- [1\(a\)](#) - Distribution Agreement, dated February 23, 2018, by and among PPL Corporation and J.P. Morgan Securities, LLC, Barclays Capital Inc., Citigroup Global Markets Inc., JPMorgan Chase Bank, National Association, London Branch, Barclays Bank PLC and Citibank N.A. (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 23, 2018)
- [*1\(b\)](#) - Final Terms, dated March 23, 2018, of Western Power Distribution (South Wales) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036
- [*4\(a\)-1](#) - Amended and Restated Trust Deed, relating to the £3,000,000,000 Euro Medium Term Note Programme of the Issuers, dated September 9, 2016, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee
- [*4\(a\)-2](#) - Supplement Prospectus, dated March 15, 2018 to the £3,000,000,000 Euro Medium Term Note Programme, entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017
- [*10\(a\)](#) - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014
- [*10\(b\)](#) - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014
- [*10\(c\)](#) - £130,000,000 Term Facility Agreement, dated March 20, 2018, between Western Power Distribution plc and HSBC Bank plc and Mizuho Bank, Ltd., as Mandated Lead Arrangers, and Mizuho Bank, Ltd., as Facility Agent.
- [*10\(d\)](#) - Amendment Agreement, dated March 21, 2018, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 and amended and restated on July 29, 2014
- [*10\(e\)](#) - £5,000,000 Letter of Credit Facility entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 20, 2018
- [*10\(f\)](#) - £75,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 28, 2018
- [*_10\(g\)](#) - Amendment No. 6 to the Amended and Restated Supplemental Executive Retirement Plan, dated March 23, 2018
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2018, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(d\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(e\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(f\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(g\)](#) - Louisville Gas and Electric Company's principal executive officer

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- [*31\(h\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(i\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(j\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2018, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document
- 101.SCH - XBRL Taxonomy Extension Schema
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase
- 101.LAB - XBRL Taxonomy Extension Label Linkbase
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: May 3, 2018

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: May 3, 2018

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

23 March 2018

Western Power Distribution (South Wales) plc

Issue of GBP 30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036

under the £3,000,000,000 Euro Medium Term Note Programme

Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 15 September 2017 and the supplement dated 15 March 2018, which together constitute a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus as so supplemented. The Prospectus and the supplemental Prospectus are available for viewing at www.westernpower.co.uk and during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1	Issuer:	Western Power Distribution (South Wales) plc
2	(i) Series Number:	2018-1
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series	Not Applicable
3	Specified Currency or Currencies:	Pounds Sterling ("£")
4	Aggregate Nominal Amount:	
	(i) Series:	£
	(ii) Tranche:	£

5	(i) Issue Price of Tranche:	104.282 per cent. of the Aggregate Nominal Amount
6	(i) Specified Denominations:	£100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Notes in definitive form will be issued with a denomination of integral multiples above £199,000.
	(ii) Calculation Amount: (Applicable to Notes in definitive form)	£1,000
7	(i) Issue Date:	26 March 2018
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	26 March 2036
9	Interest Basis:	Index Linked Interest (further particulars specified below)
10	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount
11	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Restructuring Put Option (further particulars specified in paragraph 22)
13	Date approval by Committee of the Board of Directors for issuance of Notes obtained:	28 February 2018
Provisions Relating to Interest (if any) Payable		
14	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	0.01 per cent. per annum payable semi-annually in arrear (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>))
	(ii) Interest Payment Dates:	26 March and 26 September in each year from and including 26 September 2018 to and including the Maturity Date
	(iii) Fixed Coupon Amount: (Applicable to Notes in definitive form)	£0.050 per Calculation Amount per semi-annual period (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>))
	(iv) Broken Amount: (Applicable to Notes in definitive form)	Not Applicable
	(v) Day Count Fraction:	Actual/Actual ICMA
	(vi) Determination Dates:	26 March and 26 September in each year
15	Floating Rate Note Provisions	Not Applicable
16	Zero Coupon Note Provisions	Not Applicable
17	Index Linked Interest Note Provisions	Applicable
	(i) Rate of Interest:	Fixed, calculated in accordance with paragraph 14 above
	(ii) Minimum Indexation Factor:	Not Applicable
	(iii) Maximum Indexation Factor:	Not Applicable

	(iv) Base Index Figure:	276.40645 calculated as an interpolation between RPI figures in December 2017 and January 2018
	(v) Limited Indexation Month(s):	Not Applicable
	(vi) Reference Gilt:	0.125 per cent. Index-Linked Treasury Stock due November 2036
	(vii) Index Figure applicable	3 months lag
18	Ratings Downgrade Rate Adjustment	Not Applicable

Provisions Relating to Redemption

19	Index Linked Redemption Provisions	Applicable
	(i) Minimum Indexation Factor:	Not Applicable
	(ii) Maximum Indexation Factor:	Not Applicable
	(iii) Base Index Figure:	276.40645 calculated as an interpolation between RPI figures in December 2017 and January 2018
	(iv) Reference Gilt:	0.125 per cent. Index-Linked Treasury Stock due November 2036
	(v) Index Figure applicable	3 months lag
	(vi) Redeemable in part:	Not Applicable
20	Issuer Call	Not Applicable
21	Investor Put	Applicable (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(i) Optional Redemption Date(s):	On the Put Date (as specified in the relevant Put Event Notice) (where (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(ii) Notice Period:	As per Condition 6(g) (Redemption at the Option of Noteholders on a Restructuring Event)
	(iii) Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
22	Restructuring Put Option	Applicable 6(g) (Redemption at the Option of the Noteholders on a Restructuring Event) applies
	(i) Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
23	Final Redemption Amount:	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
24	Early Redemption Amount payable on redemption for taxation reasons or on event of default	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount

General Provisions Applicable to the Notes

25	Form of Notes:	Bearer
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(i) if issued in Bearer form:

Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.

New Global Note/NSS:

Yes (NGN)

26 Additional Financial Centre(s) or other special provisions relating to payment dates:

Not Applicable

27 Talons for future Coupons to be attached to Definitive Notes: No

Signed on behalf of
Western Power Distribution (South Wales) plc

By: IAN WILLIAMS

Part B
Other Information

1	Listing and Admission to Trading	
	(i) Listing and admission to trading:	Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from 26 March 2018
	(ii) Estimate of total expenses related to admission to trading:	£1750
2	Ratings	
	Ratings:	The Notes to be issued have been rated: Baa1 (Stable) by Moody's Investors Service Limited (Moody's); and A- (Stable) by Standard & Poor's Credit Market Services Europe Limited (S&P) Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended)
3	Interests of Natural and Legal Persons Involved in the Issue	
	Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.	
4	Reasons for the Offer, Estimated Net Proceeds and Total Expenses	
	(i) Reasons for the offer	See the section entitled "Use of proceeds" in the Prospectus
	(ii) Estimated net proceeds:	Not Applicable
	(iii) Estimated total expenses:	Not Applicable
5	Yield (Fixed Rate Notes only)	
	Indication of yield:	-0.223 per cent.
6	Operational Information	
	(i) ISIN Code:	XS1797949267
	(ii) Common Code:	179794926
	(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	Not Applicable
	(iv) Delivery:	Delivery against payment
	(v) Names and addresses of additional Paying Agent(s) (if any):	Not applicable

(vi) Intended to be held in a manner which would allow Eurosystem eligibility:

Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (**ICSD**) as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the **ECB**) being satisfied that Eurosystem eligibility criteria have been met.

7

Distribution

(i) Method of distribution:	Non-syndicated
(ii) If syndicated, names and addresses of Managers):	Not Applicable
(iii) Date of Dealer Agreement:	15 September 2017
(iv) Stabilisation Manager(s) (if any):	Not Applicable
(v) If non-syndicated, name and address of relevant Dealer:	HSBC Bank plc
(vi) U.S. Selling Restrictions:	Reg. S Compliance Category 2; TEFRA D not applicable
(vii) Prohibition of Sales to EEA Retail Investors:	Applicable

CONFORMED COPY

WESTERN POWER DISTRIBUTION (EAST MIDLANS) PLC

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

AND

WESTERN POWER DISTRIBUTION (WEST MIDLANS) PLC AS ISSUERS

AND

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED AS NOTE TRUSTEE

AMENDED AND RESTATED TRUST DEED

RELATING TO THE £3,000,000,000 EURO MEDIUM TERM NOTE
PROGRAMME OF THE ISSUERS

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THIS AMENDED AND RESTATED TRUST DEED is made on 9 September 2016

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC** and **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (each an "**Issuer**" and together the "**Issuers**"); and
- (2) **HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED** (the "**Note Trustee**", which expression, where the context so admits, includes any other trustee or the trustees for the time being of this Trust Deed).

WHEREAS:

- (A) The Issuers have established a note programme pursuant to which the Issuers propose to issue from time to time euro medium term notes in an aggregate nominal amount outstanding at any one time not exceeding the Programme Limit in accordance with the Dealer Agreement (the "**Programme**"). Notes issued by each Issuer are obligations solely of that Issuer (the "**Relevant Issuer**") and are without any recourse whatsoever to any other Issuer.
- (B) The Issuers have made applications to the United Kingdom Financial Conduct Authority (the "**FCA**") for Notes issued under the Programme to be to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange plc. The Regulated Market of the London Stock Exchange plc is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments ("**MIFID**"). The Notes may be admitted to trading on other regulated markets (as defined in MIFID). Notes may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation on such unregulated markets as may be agreed with the Relevant Issuer ("**Exempt Notes**").
- (C) In connection with the Programme, the Issuers have prepared a prospectus dated 9 September 2016 which has been approved by the FCA as a prospectus issued in compliance with Directive 2003/71/EC and relevant implementing measures in the United Kingdom (the "**Prospectus**"). The FCA has neither approved nor reviewed the information contained in the Prospectus in connection with the Exempt Notes.
- (D) Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche (as defined below) of the Notes will (other than in the case of Exempt Notes) be set out in a separate document containing the final terms for that Tranche (the "**Final Terms**"). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the "**Pricing Supplement**").

- (E) In connection with the Programme, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc and the Note Trustee entered into an amended and restated trust deed dated 10 September 2013 (the "**Original Trust Deed**"). The Issuers and the Note Trustee wish to amend and restate the Original Trust Deed.
- (F) The Original Trust Deed shall be amended and restated on the terms of this Trust Deed. Except as provided below, any Notes issued on or after the date of this Trust Deed shall be issued pursuant to this Trust Deed. This does not affect any Notes issued prior to the date of this Trust Deed or any Notes issued on or after the date of this Trust Deed so as to be consolidated and form a single Series issued prior to the date of this Trust Deed. Subject to such amendment and restatement, the Original Trust Deed shall continue in full force and effect. The Original Trust Deed as amended by this Amended and Restated Trust Deed is referred to herein as the "**Trust Deed**".
- (G) The Note Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

THIS DEED WITNESSES AND IT IS DECLARED as follows:

1. INTERPRETATION

1.1 Definitions

In this Trust Deed:

"**Agency Agreement**" means the amended and restated agency agreement relating to the Programme dated 10 September 2013 between the Issuers, the Note Trustee, the Issuing and Paying Agent and the other agents mentioned in it.

"**Agents**" means the Issuing and Paying Agent, the Paying Agents, the Calculation Agent, the Registrar, the Transfer Agents or any of them.

"**Bearer Note**" means a Note that is in bearer form, and includes any replacement Bearer Note issued pursuant to the Conditions and any temporary Global Note or permanent Global Note.

"**Calculation Agent**" means, in relation to the Notes of any Series, the person named as such in the Conditions or any Successor Calculation Agent.

"**Certificate**" means a registered certificate representing one or more Registered Notes of the same Series and, save as provided in the Conditions, comprising the entire holding by a Noteholder of his Registered Notes of that Series and, save in the case of Global Certificates, being substantially in the form set out in Schedule 3.

"**CGN**" means a temporary Global Note in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or a permanent Global Note in the form set out in Part 2 of Schedule 1 (*Form of CGN Permanent Global Note*).

"**Clearstream, Luxembourg**" means Clearstream Banking, S.A.

"**Common Safekeeper**" means, in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes.

"**Conditions**" means in respect of the Notes of each Series, the terms and conditions applicable thereto which shall be substantially in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) or in such other form as may be agreed between the Relevant Issuer, the Issuing and Paying Agent, the Note Trustee and the Relevant Dealer as modified, with respect to any Notes represented by a Global Certificate or a Global Note, by the provisions of such Global Certificate or Global Note, and shall incorporate any additional provisions forming part of such terms and conditions set out in Part A of the Final Terms relating to the Notes of that Series and shall be endorsed on the Definitive Notes and any reference to a particularly numbered Condition shall be construed accordingly.

"**Contractual Currency**" means, in relation to any payment obligation of any Note, the currency in which that payment obligation is expressed and, in relation to Clause 11 (*Provisions supplemental to the Trustee Act 1925 and the Trustee Act 2000*), pounds sterling or such other currency as may be agreed between the Relevant Issuer and the Note Trustee from time to time.

"**Coupons**" means the bearer coupons relating to interest bearing Bearer Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions.

"**Dealer Agreement**" means the amended and restated Dealer Agreement relating to the Programme dated 9 September 2016 between the Issuers, Barclays Bank PLC, The Royal Bank of Scotland plc and the other dealers and arrangers named in it.

"**Definitive Note**" means a Bearer Note in definitive form having, where appropriate, Coupons and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Conditions.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Eurosystem-eligible NGN**" means a NGN which is intended to be held in a manner which would allow Eurosystem eligibility, as stated in the applicable Final Terms.

"**Event of Default**" means an event described in Condition 12 (*Events of Default*) of the Conditions that, if so required by that Condition, has been certified by the Note Trustee to be, in its opinion, materially prejudicial to the interests of the Noteholders.

"**Extraordinary Resolution**" has the meaning set out in 7 (*Provisions for Meetings of Noteholders*).

"**Final Terms**" means, in relation to a Tranche, the Final Terms issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule C (*Form of Final Terms*) to the Dealer Agreement.

"**FSMA**" means the Financial Services and Markets Act 2000.

"**Global Certificate**" means a Certificate substantially in the form set out in Part 5 of Schedule 1 (*Form of Global Certificate*) representing Registered Notes of one or more Tranches of the same Series.

"**Global Note**" means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require.

"**holder**" in relation to a Note, Coupon or Talon, and "**Couponholder**" and "**Noteholder**" have the meanings given to them in the Conditions.

"**Issuing and Paying Agent**" means the person named as such in the Conditions or any Successor Issuing and Paying Agent in each case at its specified office.

"**Liabilities**" means in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings, or other liabilities whatsoever including legal fees and Taxes and penalties incurred by that person (but, for the avoidance of doubt, in each case, excluding tax on net income, profits or gains), together with any irrecoverable VAT charged or chargeable in respect of any sums referred to in this definition.

"**Market**" means the regulated market of the London Stock Exchange.

"**Moody's**" means Moody's Investors Services Limited or any of its subsidiaries and their successors.

"**NGN**" or "**New Global Note**" means a temporary Global Note in the form set out in Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*) or a permanent Global Note in the form set out in Part 4 of Schedule 1 (*Form of NGN Permanent Global Note*).

"**NSS**" means the new safekeeping structure which applies to Registered Notes held in global form by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Registered Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations.

"**Non-eligible NGN**" means a NGN which is not intended to be held in a manner which would allow Eurosystem eligibility, as stated in the applicable Final Terms.

"**Notes**" means the euro medium term notes to be issued by the Issuers pursuant to the Dealer Agreement, constituted by this Trust Deed and for the time being outstanding or, as the context may require, a specific number of them and, in respect of an Issuer shall only refer to the Notes issued by it.

"**outstanding**" means, in relation to the Notes, all the Notes issued except (a) those that have been redeemed in accordance with this Trust Deed, (b) those that have been redeemed in accordance with the Conditions, (c) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable after such date) have been duly paid to the Note Trustee or to the Issuing and Paying Agent as provided in

Clause 2 (*Issue of Notes and Covenant to pay*) and in the manner provided in the Agency Agreement and remain available for payment against presentation and surrender of Notes, Certificates and/or Coupons, as the case may be in accordance with the Conditions, (d) those that have become void or in respect of which claims have become prescribed, (e) those that have been purchased and cancelled as provided in the Conditions and notice of the cancellation of which has been given to the Note Trustee, (f) those mutilated or defaced Bearer Notes that have been surrendered or cancelled in exchange for replacement Bearer Notes, (g) (for the purpose only of determining how many Notes are outstanding and without prejudice to their status for any other purpose) those Bearer Notes alleged to have been lost, stolen or destroyed and in respect of which replacement Notes have been issued, (h) any temporary Global Note to the extent that it shall have been exchanged for a permanent Global Note and any Global Note to the extent that it shall have been exchanged for one or more Definitive Notes, in either case pursuant to its provisions provided that for the purposes of (1) ascertaining the right to attend and vote at any meeting of the Noteholders, (2) the determination of how many Notes are outstanding for the purposes of Conditions 12 (*Events of Default*) and 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) Schedule 7 (*Provisions for Meetings of Noteholders*), (3) the exercise of any discretion, power or authority that the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders and (4) the certification (where relevant) by the Note Trustee as to whether an Event of Default is in its opinion materially prejudicial to the interests of the Noteholders, those Notes that are beneficially held by or on behalf of the Relevant Issuer and not cancelled shall (unless no longer so held) be deemed not to remain outstanding. Save for the purposes of the proviso herein, in the case of each NGN, the Note Trustee shall rely on the records of Euroclear and Clearstream, Luxembourg in relation to any determination of the nominal amount outstanding of each NGN.

"Offering Circular" means the offering circular dated 9 September 2016 relating to the Notes (which term shall include those documents incorporated by reference into it in accordance with its terms and save as provided therein) as from time to time amended, supplemented or replaced and, in relation to each Tranche, the applicable Pricing Supplement.

"Paying Agents" means the persons (including the Issuing and Paying Agent) referred to as such in the Conditions or any Successor Paying Agents in each case at their respective specified offices.

"permanent Global Note" means a Global Note representing Bearer Notes of one or more Tranches of the same Series, either on issue or upon exchange of a temporary Global Note, or part of it, and which shall be substantially in the form set out in Part 2 (*Form of CGN Temporary Global Note*) or Part 4 (*Form of CGN Temporary Global Note*) of Schedule 1, as the case may be.

"Pricing Supplement" means, in relation to any Tranche of Exempt Notes, the pricing supplement issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule D (*Form of Pricing Supplement*) to the Dealer Agreement.

"Procedures Memorandum" means administrative procedures and guidelines relating to the settlement of issues of Notes as shall be agreed upon from time to time by the

Issuers, the Note Trustee, the Permanent Dealers (as defined in the Dealer Agreement) and the Issuing and Paying Agent and which, at the date of this Trust Deed, are set out in Schedule A (*Procedures Memorandum*) to the Dealer Agreement.

"**Programme Limit**" means the maximum aggregate nominal amount of Notes that may be issued and outstanding at any time under the Programme, as such limit may be increased pursuant to the Dealer Agreement.

"**Put Event**" has the meaning given to it in Condition 6 (*Redemption, Purchase and Options*).

"**Put Option**" has the meaning given to it in Condition 6 (*Redemption, Purchase and Options*).

"**Redemption Amount**" means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, all as defined in the Conditions.

"**Register**" means the register maintained by the Registrar at its specified office.

"**Registered Note**" means a Note in registered form.

"**Registrar**" means the person named as such in the Conditions or any Successor Registrar in each case at its specified office.

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors.

"**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

"**specified office**" means, in relation to a Paying Agent, the Registrar or a Transfer Agent the office identified with its name at the end of the Conditions or any other office approved by the Note Trustee and notified to Noteholders pursuant to Clause 9(m) (*Change in Agents*).

"**Successor**" means, in relation to an Agent such other or further person as may from time to time be appointed by the Issuers as such Agent with the written approval of, and on terms approved in writing by, the Note Trustee and notice of whose appointment is given to Noteholders pursuant to Clause 9(m) (*Change in Agents*).

"**Talons**" mean talons for further Coupons or, as the context may require, a specific number of them and includes any replacement Talons issued pursuant to the Conditions.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty

or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income, profits or gains) imposed or levied by or on behalf of any Tax Authority in the jurisdiction of the Relevant Issuer and **Taxes** shall be construed accordingly.

"**Tax Authority**" means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty's Revenue and Customs).

"**temporary Global Note**" means a Global Note representing Bearer Notes of one or more Tranches of the same Series on issue and which shall be substantially in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*), as the case may be.

"**Tranche**" means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical.

"**Transfer Agents**" means the persons (including the Registrar) referred to as such in the Conditions or any Successor Transfer Agents in each case at their specified offices.

"**trust corporation**" means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a trustee pursuant to applicable foreign legislation relating to trustees.

"**VAT**" means value added tax provided for in the VAT Legislation and any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere.

"**VAT Legislation**" means the Value Added Tax Act 1994.

1.2 Construction of Certain References

References to:

- (a) the records of Euroclear and Clearstream, Luxembourg shall be to the records that each of Euroclear and Clearstream, Luxembourg holds for its customers which reflect the amount of such customers' interests in the Notes;
- (b) costs, charges, remuneration or expenses include any value added, turnover or similar tax charged in respect thereof; and
- (c) an action, remedy or method of judicial proceedings for the enforcement of creditors' rights include references to the action, remedy or method of judicial proceedings in jurisdictions other than England as shall most nearly approximate thereto.

1.3 Headings

Headings shall be ignored in construing this Trust Deed.

1.4 **Offering Circular and Pricing Supplement**

In this Trust Deed, all references to "Final Terms" shall be deemed to include references to "Pricing Supplement", and all references to "Prospectus" in this Agreement shall be deemed to include references to the "Offering Circular", unless the context requires otherwise.

1.5 **Legislation**

Any reference in this Trust Deed to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.6 **Contracts**

References in this Trust Deed to this Trust Deed or any other document are to this Trust Deed or those documents as amended, supplemented or replaced from time to time in relation to the Programme and include any document that amends, supplements or replaces them.

1.7 **Schedules**

The Schedules are part of this Trust Deed and have effect accordingly.

1.8 **Alternative Clearing System**

References in this Trust Deed to Euroclear and/or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include reference to any additional or alternative clearing system approved by the Issuers, the Note Trustee and the Issuing and Paying Agent. In the case of NGNs or Global Certificates held under the NSS, such alternative clearing system must also be authorised to hold such Notes as eligible collateral for Eurosystem monetary policy and intra-day credit operations.

1.9 **Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to this Trust Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed except and to the extent (if any) that this Trust Deed expressly provides for such Act to apply to any of its terms.

1.10 **Final Terms**

In the event of any inconsistency between the Trust Deed and the Final Terms, the Final Terms shall prevail.

1.11 **Regulated markets**

Any reference in this Trust Deed to a regulated market shall be construed as a reference to a regulated market within the meaning given in the Prospectus Directive.

1.12 **Amendment and Restatement**

The Original Trust Deed shall be amended and restated on the terms of this Trust Deed. Except as provided below, any Notes issued on or after the date of this Trust Deed shall be issued pursuant to this Trust Deed. This does not affect any Notes issued prior to the date of this Trust Deed or any Notes issued on or after the date of this Trust Deed so as to be consolidated and form a single series with Notes issued prior to the date of this Trust Deed. Subject to such amendment and restatement, the Original Trust Deed shall continue in full force and effect.

2. ISSUE OF NOTES AND COVENANT TO PAY

2.1 Issue of Notes

Each Issuer may from time to time issue Notes in Tranches of one or more Series on a continuous basis with no minimum issue size in an aggregate nominal amount of up to the Programme Limit in accordance with the Dealer Agreement. Before issuing any Tranche, the Relevant Issuer shall give written notice or procure that it is given to the Note Trustee of the proposed issue of such Tranche, specifying the details to be included in the relevant Final Terms. Upon the issue by the Relevant Issuer of any Notes expressed to be constituted by this Trust Deed, such Notes shall forthwith be constituted by this Trust Deed without any further formality and irrespective of whether or not the issue of such debt securities contravenes any covenant or other restriction in this Trust Deed or the Programme Limit.

2.2 Separate Series

The Notes of each Series shall form a separate series of Notes and accordingly, unless the Note Trustee in its absolute discretion shall otherwise determine, the provisions of this Trust Deed shall apply *mutatis mutandis* separately and independently to the Notes of each Series and in such Clauses and Schedule the expressions "**Noteholders**", "**Certificates**", "**Coupons**", "**Couponholders**" and "**Talons**", together with all other terms that relate to Notes or their Conditions, shall be construed as referring to those of the particular Series in question and not of all Series unless expressly so provided, so that each Series shall be constituted by a separate trust pursuant to Subclause 2.3 (*Covenant to Pay*) and that, unless expressly provided, events affecting one Series shall not affect any other. Each Issuer shall be at liberty from time to time (but subject always to the provisions of this Trust Deed) without the consent of the Noteholders or Couponholders to create and issue further Notes (whether in bearer or registered form) having terms and conditions the same as the Notes of any Tranche (or the same in all respects save for the Issue Date, Interest Commencement Date (as defined in the Conditions) and Issue Price (as defined in the Conditions)) and so that the same shall be consolidated and form a single Series with the outstanding Notes of a particular Tranche.

2.3 Covenant to Pay

Each Relevant Issuer covenants with the Note Trustee that it, in relation to itself only, shall on any date when any Notes become due to be redeemed, in whole or in part, or any principal of the Notes of any Series or any of them becomes due to be repaid in accordance with the Conditions, unconditionally pay to or to the order of the Note Trustee in the Contractual Currency, in the case of any Contractual Currency other than euro, in

the principal financial centre for the Contractual Currency and in the case of euro, in a city in which banks have access to the TARGET System, in same day funds the Redemption Amount of the Notes becoming due for redemption on that date together with any applicable premium and shall (subject to the Conditions and except in the case of Zero Coupon Notes) until such payment (both before and after judgment) unconditionally so pay to or to the order of the Note Trustee interest in respect of the nominal amount of the Notes outstanding as set out in the Conditions (subject to Subclause 2.6 (*Rate of interest After a Default*)) provided that (1) subject to the provisions of Clause 2.5 (*Payment after a Default*) payment of any sum due in respect of the Notes or any of them made to the Issuing and Paying Agent, or as the case may be, the Registrar as provided in the Agency Agreement shall, to that extent, satisfy such obligation except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders (as the case may be) under the Conditions, (2) a payment made after the due date or as a result of the Note becoming repayable following an Event of Default shall be deemed to have been made when the full amount due has been received by the Issuing and Paying Agent or the Note Trustee and notice to that effect has been given to the Noteholders (if required under Clause 9(k) (*Notice of Late Payment*)), except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders (as the case may be) under the Conditions; and (3) in any case where payment of the whole or any part of the principal amount due in respect of any Note is improperly withheld or refused upon due presentation of the relevant Note or (if so provided for in the Conditions) interest shall accrue on the whole or such part of such principal amount from the date of such withholding or refusal until the date either on which such principal amount due is paid to the relevant Noteholders or, if earlier, the seventh day after which notice is given to the relevant Noteholders in accordance with the Conditions that the full amount payable in respect of the said principal amount is available for collection by the relevant Noteholders provided that on further due presentation of the relevant Note or (if so provided for in the Conditions) the relevant Note Certificate such payment is in fact made. This covenant shall only have effect each time Notes are issued and outstanding, when the Note Trustee shall hold the benefit of this covenant and the covenant in Clause 8 (*Covenant to comply with the Trust Deed*) on trust for the Noteholders and Couponholders of the relevant Series.

2.4 **Discharge**

Subject to Subclause 2.5 (*Payment after a Default*), any payment to be made in respect of the Notes or the Coupons by the Relevant Issuer or the Note Trustee may be made as provided in the Conditions and any payment so made shall (subject to Subclause 2.5 (*Payment after a Default*)) to that extent be a good discharge to the Relevant Issuer or the Note Trustee, as the case may be (including, in the case of Notes represented by a NGN whether or not the corresponding entries have been made in the records of Euroclear and Clearstream, Luxembourg), except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders under the Conditions.

2.5 **Payment after a Default**

At any time after an Event of Default has occurred in relation to a particular Series the Note Trustee may:

- (a) by notice in writing to the Relevant Issuer, the Paying Agents and the other Agents, require the Paying Agents and the other Agents, or any of them until notified by the Note Trustee to the contrary, so far as permitted by applicable law:
 - (i) to act thereafter until otherwise instructed by the Note Trustee as Agents of the Note Trustee under this Trust Deed and the Notes of such Series on the terms of the Agency Agreement (with consequential amendments as necessary and except that the Note Trustee's liability for the indemnification, remuneration and expenses of the Paying Agents and the Transfer Agents shall be limited to the amounts for the time being held by the Note Trustee in respect of such Series on the terms of this Trust Deed and available for that purpose) and thereafter to hold all Notes, Certificates, Coupons and Talons of such Series and all moneys, documents and records held by them in respect of Notes, Certificates, Coupons and Talons of such Series on behalf of or to the order of the Note Trustee; and/or
 - (ii) to deliver all Notes, Certificates, Coupons and Talons of such Series and all moneys, documents and records held by them in respect of the Notes, Certificates, Coupons and Talons of such Series to the Note Trustee or as the Note Trustee directs in such notice provided that, such notice shall be deemed not to apply to any document or record which the relevant Agent is obliged not to release by any law or regulation; and
- (b) by notice in writing to the Relevant Issuer require the Relevant Issuer to make all subsequent payments in respect of the Notes, Coupons and Talons of such Series to or to the order of the Note Trustee and not to the Issuing and Paying Agent with effect from the issue of any such notice to the Relevant Issuer; and from then until such notice is withdrawn, proviso (1) to Clause 2.3 (*Covenant to Pay*) above shall cease to have effect.

2.6 Rate of interest After a Default

If the Notes bear interest at a floating or other variable rate and they become immediately due and repayable under the Conditions, the rate and/or amount of interest payable in respect of them shall continue to be calculated by the Calculation Agent at such interest as if they had not become due and repayable in accordance with the Conditions (with consequential amendments as necessary) except that the rates of interest need not be published unless the Note Trustee otherwise requires. The first period in respect of which interest shall be so calculable shall commence on the expiry of the Interest Period during which the Notes become so due and repayable.

3. FORM OF THE NOTES

3.1 Global Notes

- (a) The Notes of each Tranche will initially be represented by a single temporary Global Note or a single permanent Global Note, as indicated in the applicable Final Terms. Each temporary Global Note shall be exchangeable, upon request as described therein, for either Definitive Notes together with, where applicable, Coupons (except in the case of Zero Coupon Notes) and, where applicable, Talons attached, or a permanent Global Note in each case in accordance with the provisions of such temporary Global Note. Each permanent Global Note shall be exchangeable for Definitive Notes together with, where applicable, Coupons (except in the case of Zero Coupon Notes) and, where applicable, Talons attached, in accordance with the provisions of such permanent Global Note. All Global Notes shall be prepared, completed and delivered to a common depository (in the case of a CGN) or Common Safekeeper (in the case of a NGN) for Euroclear and Clearstream, Luxembourg in accordance with the provisions of the Dealer Agreement or to another appropriate depository in accordance with any other agreement between the Relevant Issuer and the relevant Dealer(s) and, in each case, the Agency Agreement.
- (b) Each temporary Global Note shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*), as the case may be and may be a facsimile. Each temporary Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each temporary Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.
- (c) Each permanent Global Note shall be printed or typed in the form or substantially in the form set out in Part 2 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 4 of Schedule 1 (*Form of NGN Permanent Global Note*), as the case may be and may be a facsimile. Each permanent Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each permanent Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.

3.2 Global Certificates

- (a) The Registered Notes of each Tranche will initially be represented by a Global Certificate. Global Certificates shall be deposited with a common depository for, and registered in the name of a nominee of such common depository for, Euroclear and Clearstream, Luxembourg.
- (b) Each Global Certificate, and each interest represented by a Global Certificate, shall be exchangeable and transferable only in accordance with the provisions of such Global Certificate, the Dealer Agreement, the Agency Agreement and the rules and operating procedures for the time being of Euroclear and Clearstream, Luxembourg (as the case may be).
- (c) Each Global Certificate shall be printed or typed in the form or substantially in the form set out in Part 5 of 1 (*Form of Global Certificate*) and may be a facsimile. Each Global Certificate shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated manually by or on behalf of the Registrar. The Registrar shall also instruct the Common Safekeeper to effectuate the same. Each Global Certificate so executed, authenticated and effectuated shall be a binding and valid obligation of the Relevant Issuer.

3.3 **The Definitive Notes**

The Definitive Notes, Coupons and Talons shall be security printed and the Certificates shall be printed, in each case in accordance with applicable legal and stock exchange requirements substantially in the forms set out in Schedule 2 (*Form of Definitive Bearer Note*). The Notes and Certificates (other than Global Certificates) shall be endorsed with the Conditions.

3.4 **Signature**

The Notes, Certificates, Coupons and Talons shall be signed manually or in facsimile by a duly authorised signatory of the Relevant Issuer, the Notes shall be authenticated by or on behalf of the Issuing and Paying Agent and the Certificates shall be authenticated by or on behalf of the Registrar. The Relevant Issuer may use the facsimile signature of a person who at the date of this Trust Deed is such a duly authorised signatory even if at the time of issue of any Notes, Certificates, Coupons or Talons he is no longer so authorised. In the case of a Global Note which is a NGN or a Global Certificate which is held under the NSS, the Issuing and Paying Agent or the Registrar shall also instruct the Common Safekeeper to effectuate the same. Notes, Certificates, Coupons and Talons so executed and authenticated (and effectuated, if applicable) shall be or, in the case of Certificates, represent binding and valid obligations of the Relevant Issuer.

3.5 **Entitlement to treat holder as owner**

The Relevant Issuer, the Note Trustee and any Agent may deem and treat the holder of any Bearer Note or Certificate as the absolute owner of such Bearer Note or Certificate, free of any equity, set-off or counterclaim on the part of the Relevant Issuer against the original or any intermediate holder of such Bearer Note or Certificate (whether or not such Bearer Note or the Registered Note represented by such Certificate shall be overdue

and notwithstanding any notation of ownership or other writing thereon or any notice of previous loss or theft of such Bearer Note or Certificate) for all purposes and, except as ordered by a court of competent jurisdiction or as required by applicable law, the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent shall not be affected by any notice to the contrary. All payments made to any such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for the moneys payable upon the Notes.

4. STAMP DUTIES AND TAXES

4.1 Stamp Duties

Each Relevant Issuer (in respect of itself only) shall pay any stamp, issue, regulatory, documentary or other similar taxes and duties, including interest and penalties, payable in the United Kingdom and the country of each Contractual Currency in respect of the creation, issue and offering of the Notes, Certificates, Coupons and Talons and the execution or delivery of this Trust Deed. Each Relevant Issuer (on a several (and not joint) basis) shall also pay to the Note Trustee, the Noteholders or the Couponholders (as applicable), an amount equal to any stamp, issue, documentary or other similar taxes paid by them in any jurisdiction in connection with any action taken by or on behalf of the Note Trustee or, as the case may be, the Noteholders or the Couponholders to enforce the Relevant Issuer's obligations under this Trust Deed or the Notes, Certificates, Coupons or Talons.

4.2 Change of Taxing Jurisdiction

If an Issuer becomes subject generally to the taxing jurisdiction of a territory or a taxing authority of or in that territory with power to tax other than or in addition to the United Kingdom or any such authority of or in such territory then the Relevant Issuer shall (unless the Note Trustee otherwise agrees) give the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to the terms of Condition 10 (*Taxation*) with the substitution for, or (as the case may require) the addition to, the references in that Condition to the United Kingdom of references to that other or additional territory or authority to whose taxing jurisdiction the Relevant Issuer has become so subject. In such event this Trust Deed and the Notes, Certificates, Coupons and Talons shall be read accordingly.

5. APPLICATION OF MONEYS RECEIVED BY THE NOTE TRUSTEE

5.1 Declaration of Trust

All moneys received by the Note Trustee in respect of the Notes or amounts payable under this Trust Deed shall, despite any appropriation of all or part of them by the Relevant Issuer, be held by the Note Trustee on trust to apply them (subject to Clause 5.2 (*Accumulation*)):

- (a) first, in payment of all costs, charges, expenses and Liabilities incurred by the Note Trustee (including remuneration payable to it) in carrying out its functions under this Trust Deed;

- (b) secondly, in payment of any amounts owing in respect of the Notes or Coupons *pari passu* and rateably (and where interest and principal is due and payable in respect of the Notes it shall be applied *pari passu* between each Series unless in respect of a specific Series only); and
- (c) thirdly, in payment of any balance to the Relevant Issuer for itself.

If the Note Trustee holds any moneys in respect of Notes or Coupons that have become void or in respect of which claims have become prescribed, the Note Trustee shall hold them on these trusts.

5.2 Accumulation

If the amount of the moneys at any time available for payment in respect of the Notes under Subclause 5.1 (*Declaration of Trust*) is less than 10 per cent. of the nominal amount of the Notes then outstanding, the Note Trustee may, at its discretion, invest such moneys upon some or one of the investments hereinafter authorised with power from time to time, with like discretion, to vary such investments. The Note Trustee may retain such investments and accumulate the resulting income until the investments and the accumulations, together with any other funds for the time being under its control and available for such payment, amount to at least 10 per cent. of the nominal amount of the Notes then outstanding and then such investments, accumulations and funds (after deduction of, or provision for, any applicable taxes) shall be applied as specified in Subclause 5.1 (*Declaration of Trust*).

5.3 Investment

Moneys held by the Note Trustee may be invested in its name or under its control in any investments or other assets anywhere whether or not they produce income or deposited in its name or under its control at such bank or other financial institution in such currency as the Note Trustee may, in its absolute discretion, think fit. If that bank or institution is the Note Trustee or a subsidiary, holding or associated company of the Note Trustee, it need only account for an amount of interest equal to the standard amount of interest payable by it on such a deposit to an independent customer. The Note Trustee may at any time vary or transpose any such investments or assets or convert any moneys so deposited into any other currency, and shall not be responsible for any resulting Liability, whether by depreciation in value, change in exchange rates or otherwise.

6. ENFORCEMENT AND PUT EVENT

6.1 Proceedings brought by the Note Trustee

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Event of Default*), where the Note Trustee has certified (where applicable) (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Note Trustee may at its discretion and without further notice take such proceedings as it may think fit against the Relevant Issuer to enforce the terms of the Trust Deed, the Notes and the Coupons.

6.2 Proof of default

Should the Note Trustee take legal proceedings against the Relevant Issuer to enforce any of the provisions of this Trust Deed:

- (a) proof therein that as regards any specified Note the Relevant Issuer has made default in paying any principal, premium or interest due in respect of such Note shall (unless the contrary be proved) be sufficient evidence that the Relevant Issuer has made the like default as regards all other Notes which are then due and repayable; and
- (b) proof therein that as regards any specified Coupon the Relevant Issuer has made default in paying any interest due in respect of such Coupon shall (unless the contrary be proved) be sufficient evidence that the Relevant Issuer has made the like default as regards all other Coupons which are then due and payable.

6.3 Put Event

At any time upon the Note Trustee becoming aware that a Put Event has occurred, the Note Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice to the Noteholders in accordance with Condition 18 (*Notice*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

7. PROCEEDINGS

7.1 Action taken by Note Trustee

The Note Trustee shall not be bound to take any such proceedings as are mentioned in Clause 6.1 (*Proceedings brought by the Note Trustee*) unless respectively directed or requested to do so (i) by an Extraordinary Resolution or (ii) in writing by the holders of at least one-quarter in nominal amount of the Notes of the relevant Series then outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

7.2 Note Trustee only to enforce

Only the Note Trustee may enforce the provisions of this Trust Deed. No holder shall be entitled to proceed directly against the Relevant Issuer to enforce the performance of any of the provisions of this Trust Deed unless the Note Trustee having become bound as aforesaid to take proceedings fails to do so within a reasonable period and such failure shall be continuing.

8. COVENANT TO COMPLY WITH THE TRUST DEED

8.1 Covenant to comply with the Trust Deed

The Relevant Issuer covenants with the Note Trustee to comply with those provisions of this Trust Deed, the Conditions and the other Programme documents which are expressed to be binding on it and to perform and observe the same. The Notes and the

Coupons are subject to the provisions contained in this Trust Deed, all of which shall be binding upon the Relevant Issuer, the Noteholders, the Couponholders and all persons claiming through or under them respectively.

8.2 Note Trustee may enforce Conditions

The Note Trustee shall itself be entitled to enforce the obligations of the Relevant Issuer under the Notes and the Conditions as if the same were set out and contained in this Trust Deed which shall be read and construed as one document with the Notes.

9. COVENANTS

So long as any Note is outstanding, each Relevant Issuer severally (and not jointly) covenants with the Note Trustee that it shall:

- (a) **Books of Account:** at all times keep such books of account as may be necessary to comply with all applicable laws and so as to enable the financial statements of the Relevant Issuer to be prepared and allow the Note Trustee and anyone appointed by it, access to its books of account at all reasonable times during normal business hours and to discuss the same with responsible officers of the Relevant Issuer;
- (b) **Notice of Events of Default:** notify the Note Trustee in writing immediately on becoming aware of the occurrence of any Event of Default and without waiting for the Note Trustee to take any further action;
- (c) **Information:** So long as any of the Notes remains outstanding, the Relevant Issuer covenants with the Note Trustee that it shall give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall require (including without limitation the procurement by the Relevant Issuer of all such certificates called for by the Note Trustee pursuant to Clause 11.4 (*Certificate Signed by directors*)) for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under this Trust Deed or any other Programme document or by operation of law;
- (d) **Accounts in relation to Principal Subsidiaries:** ensure that such accounts are prepared as may be necessary to determine which subsidiaries are its Principal Subsidiaries and procure that two directors of the Relevant Issuer prepare and deliver to the Note Trustee at the time of issue of every audited consolidated balance sheet of it and at any other time upon the request of the Note Trustee a certificate or report specifying the Principal Subsidiaries at the date of such balance sheet or request;
- (e) **Certificate relating to Principal Subsidiaries:** give to the Note Trustee, as soon as reasonably practicable after the acquisition or disposal of any company which thereby becomes or ceases to be a Principal Subsidiary or after any transfer is made to any Subsidiary which thereby becomes a Principal Subsidiary, a certificate by two directors of the Relevant Issuer to such effect;

- (f) **Financial Statements etc:** send to the Note Trustee and the Issuing and Paying Agent at the time of their issue, and, in the case of annual financial statements in any event within 180 days of the end of each financial year, electronic copies in English of every balance sheet, profit and loss account, report or other notice, statement or circular issued, or that legally or contractually should be issued, to its members or creditors (or any class of them) or any holding company thereof generally in their capacity as such and procure that the same are made available for inspection by Noteholders and Couponholders at the specified offices of the Paying Agents as soon as practicable thereafter;
 - (g) **Certificate of Directors:** send to the Note Trustee promptly following (i) publication of its annual audited financial statements being made available to its members, and in any event not later than 180 days after the end of its financial year and (ii) any request by the Note Trustee, a certificate signed by any two of its directors certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief as at a date not more than five days before the date of the certificate (the "**Certification Date**") the Relevant Issuer has complied with its obligations under this Trust Deed (or, if such is not the case, giving details of such non-compliance) and that as at such date there did not exist nor had there existed at any time prior thereto since the Certification Date in respect of the previous such certificate (or, in the case of the first such certificate, since the date of this Trust Deed) any Event of Default or Restructuring Event or (if such is not the case) specifying the same;
 - (h) **Certificate of Notes Held:** send to the Note Trustee as soon as practicable after being so requested by the Note Trustee a certificate of the Relevant Issuer signed by any two of its directors setting out the total number of Notes which, at the date of such certificate, were held by or on behalf of that Relevant Issuer or any Subsidiary;
 - (i) **Notices to Noteholders:** send to the Note Trustee not less than three days prior to the date of publication, for the Note Trustee's approval the form of each notice to be given to Noteholders in accordance with the Conditions and not publish such notice without such approval and, once given, two copies of each such notice (such approval, unless so expressed, not to constitute approval for the purposes of section 21 of the FSMA of any such notice which is a communication within the meaning of section 21 of the FSMA);
 - (j) **Further Acts:** so far as permitted by applicable law, do such further things and execute all such further documents as may be necessary in the opinion of the Note Trustee to give effect to this Trust Deed;
 - (k) **Notice of Late Payment:** forthwith give notice to the Noteholders of any unconditional payment to the Issuing and Paying Agent or the Note Trustee of any sum due in respect of the Notes or Coupons made after the due date for such payment;
 - (l) **Listing and Trading:** if the Notes are so listed and traded, use reasonable endeavours to maintain the listing and trading of the Notes on the Market but, if
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it is unable to do so, having used such endeavours, or if the maintenance of such listing or trading is agreed by the Note Trustee to be unduly onerous and the Note Trustee is satisfied that the interests of the Noteholders would not be thereby materially prejudiced, instead use reasonable endeavours to obtain and maintain a listing of the Notes on another stock exchange and the admission to trading of the Notes on another market (such market being a market which is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments), in each case approved in writing by the Note Trustee;

- (m) **Change in Agents:** give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of an Agent or of any change by an Agent of its specified office and not make any such appointment or removal without the Note Trustee's written approval;
 - (n) **Provision of Legal Opinions:** procure the delivery of legal opinions addressed to the Note Trustee dated the date of such delivery, in form and content acceptable to the Note Trustee:
 - (i) from Allen & Overy LLP as to the laws of England on the date of any update of the Programme and on the date of any amendment to this Trust Deed;
 - (ii) from legal advisers reasonably acceptable to the Note Trustee as to such law as may reasonably be requested by the Note Trustee on the date of any update of the Programme and on the issue date for the Notes in the event of a proposed issue of Notes of such a nature and having such features as might lead the Note Trustee to conclude (acting reasonably (and only in circumstances where, in the reasonable opinion of the Note Trustee, a legal opinion has not previously been issued in respect of Notes having such features and/or a relevant material change in law has occurred)) that it would be prudent, having regard to such nature and features, to obtain such legal opinion(s) or in the event that the Note Trustee considers it prudent (acting reasonably) in view of a change (or proposed change) in (or in the interpretation or application of) any applicable law, regulation or circumstance affecting it, the Note Trustee, the Notes, the Certificates, the Coupons, the Talons, this Trust Deed or the Agency Agreement; and
 - (iii) on each occasion on which a legal opinion is given to any Dealer in relation to any Notes pursuant to the Dealer Agreement from the legal adviser giving such opinion;
 - (o) **Notification of redemption or payment:** not less than the number of days specified in the relevant Condition prior to the redemption or payment date in respect of any Note or Coupon give to the Note Trustee notice in writing of the amount of such redemption or payment pursuant to the Conditions and duly proceed to redeem or pay such Notes or Coupons accordingly;
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- (p) **Tax or optional redemption:** if the Relevant Issuer gives notice to the Note Trustee that it intends to redeem the Notes pursuant to Conditions 6(c) (*Redemption for Taxation Reasons*), 6(d) (*Redemption for Indexation Reasons*) and 6(e) (*Redemption at the Option of the Relevant Issuer*) the Relevant Issuer shall, prior to giving such notice to the Noteholders, provide such information to the Note Trustee as the Note Trustee reasonably requires in order to satisfy itself of the matters referred to in such Condition;
- (q) **Change of taxing jurisdiction:** if the Relevant Issuer shall become subject generally to the taxing jurisdiction of any territory or any political sub-division thereof or any authority therein or thereof having power to tax other than or in addition to Relevant Issuer's taxing jurisdiction, immediately upon becoming aware thereof notify the Note Trustee of such event and (unless the Note Trustee otherwise agrees) enter forthwith into a trust deed supplemental hereto, giving to the Note Trustee an undertaking or covenant in form and manner satisfactory to the Note Trustee in terms corresponding to the terms of Condition 10 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references therein to Relevant Issuer's taxing jurisdiction of references to that other or additional territory to whose taxing jurisdiction, or that of a political subdivision thereof or an authority therein or thereof, the Relevant Issuer shall have become subject as aforesaid, such trust deed also to modify Condition 10 (*Taxation*) so that such Condition shall make reference to that other or additional territory;
- (r) **Authorised Signatories:** upon the execution hereof and thereafter forthwith upon any change of the same, deliver to the Note Trustee (with a copy to the Issuing and Paying Agent) a list of the Authorised Signatories of the Relevant Issuer, together with certified specimen signatures of the same;
- (s) **Payments:** pay moneys payable by it to the Note Trustee hereunder without set off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law pay such additional amount as will result in the payment to the Note Trustee of the amount which would otherwise have been payable by it to the Note Trustee hereunder (save that, for the avoidance of doubt, this shall not apply to any payments of interest or principal in respect of the Notes or the Coupons, any additional amounts to be paid in respect of such sums to be instead determined in accordance with Condition 10 (*Taxation*));
- (t) **Obligations of Agents:** enforce its rights as against the Agents and the Registrar under the Agency Agreement and notify the Note Trustee immediately upon it becoming aware of any material breach or failure by an Agent in relation to the Notes or Coupons;
- (u) **Notice of Put Event:** notify the Note Trustee in writing immediately on becoming aware of the occurrence of any Put Event; and
- (v) **Cancellation of Notes:** procure the delivery of a certificate of cancellation to the Note Trustee detailing all Notes redeemed, converted or purchased by the

Relevant Issuer upon which the Note Trustee can rely as conclusive evidence of repayment or discharge of the relevant Notes.

10. REMUNERATION AND INDEMNIFICATION OF THE NOTE TRUSTEE

10.1 Normal Remuneration

So long as any Note is outstanding each Relevant Issuer shall pay the Note Trustee as remuneration for its services as Note Trustee such sum on such dates in each case as the Note Trustee and the Relevant Issuer may agree in writing. Such remuneration shall accrue from day to day from the date of this Trust Deed. However, if any payment to a Noteholder or Couponholder of moneys due in respect of any Note or Coupon is improperly withheld or refused, such remuneration shall again accrue as from the date of such withholding or refusal until payment to such Noteholder or Couponholder is duly made.

10.2 Extra Remuneration

If an Event of Default (or an event has occurred which has led the Note Trustee, acting reasonably, to take steps to determine whether an Event of Default has occurred) shall have occurred in relation to a Relevant Issuer, such Relevant Issuer hereby agrees that the Note Trustee shall be entitled to be paid additional remuneration calculated at its normal hourly rates in force from time to time. In any other case, if the Note Trustee finds it expedient or necessary or is requested by such Relevant Issuer to undertake duties that they both agree to be of an exceptional nature or otherwise outside the scope of the Note Trustee's normal duties under this Trust Deed, such Relevant Issuer shall pay such additional remuneration as they may agree (and which may be calculated by reference to the Note Trustee's normal hourly rates in force from time to time) or, failing agreement as to any of the matters in this Subclause (or as to such sums referred to in Subclause 10.1 (*Normal Remuneration*)), as determined by a financial institution or person (acting as an expert) selected by the Note Trustee and approved by that Relevant Issuer or, failing such approval, nominated by the President for the time being of The Law Society of England and Wales. The expenses involved in such nomination and such financial institution's fee shall be borne by such Relevant Issuer. The determination of such financial institution or person shall be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders.

10.3 Expenses

Each Relevant Issuer shall (on a several (and not joint) basis only) pay or discharge all costs, charges, Liabilities and expenses properly incurred by the Note Trustee and (if applicable) any receiver in relation to the preparation and execution of, the exercise of its powers and the performance of its duties under, and in any other manner in relation to, this Trust Deed and the other Programme documents including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary or other taxes or duties paid by the Note Trustee in connection with any action taken or contemplated by or on behalf of the Note Trustee for enforcing or resolving any doubt concerning this Trust Deed, the Notes, the Coupons, the Talons or any other Programme document. Such costs, charges, Liabilities and expenses shall:

- (a) in the case of payments made by the Note Trustee before such demand, carry interest from the date of the demand at the rate of 2 per cent. per annum over the base rate of the Bank of England on the date on which the Note Trustee made such payments and
- (b) in other cases, carry interest at such rate from 30 days after the date of the demand or (where the demand specifies that payment is to be made on an earlier date) from such earlier date.

10.4 **Value Added Tax**

The Relevant Issuer shall in addition pay to the Note Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration (including extra remuneration and expenses) under this Trust Deed.

10.5 **Indemnity**

Without prejudice to the right of indemnity given by law to trustees, the Relevant Issuer will indemnify the Note Trustee and every receiver, attorney, manager, agent or other person appointed by the Note Trustee hereunder and keep it or him indemnified against all liabilities and expenses (including any VAT payable) to which it or he may become subject or which may be incurred by it or him in the negotiation and preparation of this Trust Deed and the other Programme documents and the execution or purported execution or exercise of any of its or his trusts, duties, rights, powers, authorities and discretions under this Trust Deed or any other Programme document or its or his functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to this Trust Deed or any other Programme document or any such appointment (including, without limitation, liabilities incurred in disputing or defending any of the foregoing).

10.6 **Continuing Effect**

Unless otherwise specifically stated in any discharge of this Trust Deed, the provisions of this Clause 10 shall continue in full force and effect notwithstanding such discharge and whether or not the Note Trustee is then the trustee of this Trust Deed.

11. **PROVISIONS SUPPLEMENTAL TO THE TRUSTEE ACT 1925 AND THE TRUSTEE ACT 2000**

11.1 **Advice**

The Note Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Relevant Issuer, the Note Trustee or otherwise, whether or not addressed to the Note Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Note Trustee will not be responsible to anyone for any liability occasioned by so acting. Any such advice, opinion or information may be sent or obtained by letter, telex, fax or electronic communication and the Note

Trustee shall not be liable for acting in good faith on any advice, opinion or information purporting to be conveyed by such means even if it contains an error or is not authentic.

11.2 **Note Trustee to Assume Performance**

The Note Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if a Restructuring Event or an Event of Default has occurred. Until it has actual knowledge or express notice to the contrary, the Note Trustee may assume that no such event has occurred and that the Relevant Issuer is performing all its obligations under this Trust Deed, the Notes, the Coupons and the Talons.

11.3 **Resolutions of Noteholders**

The Note Trustee shall not be responsible for having acted on a resolution purporting to be a Written Resolution or to have been passed at a meeting of Noteholders in respect of which minutes have been made and signed or a direction of a specified percentage of Noteholders even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that the resolution was not valid or binding on the Noteholders or Couponholders.

11.4 **Certificate Signed by directors**

If the Note Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate signed by any two directors of the Relevant Issuer as to that fact or to the effect that, in their opinion, that act is expedient and the Note Trustee need not call for further evidence and shall not be responsible for any Liability occasioned by acting on such a certificate.

11.5 **Certificate of Auditors**

A certificate of the Auditors that in their opinion a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders;

11.6 **Delivery of Certificate**

The Note Trustee shall have no Liability whatsoever for any loss, cost, damages or expenses directly or indirectly suffered or incurred by the Relevant Issuer, any Noteholder, or any other person as a result of the delivery by the Note Trustee to the Relevant Issuer of a certificate as to material prejudice pursuant to Condition 12 (*Events of Default*) on the basis of an opinion formed by it in good faith.

11.7 **Deposit of Documents**

The Note Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with

such custodian and pay all sums due in respect thereof. The Note Trustee is not obliged to appoint a custodian of securities payable to bearer.

11.8 **Discretion**

The Note Trustee shall have absolute and uncontrolled discretion as to the exercise of its functions and shall not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience that may result from their exercise or non-exercise.

11.9 **Note Trustee's consent**

Any consent given by the Note Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Note Trustee may require.

11.10 **Agents**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may, in the conduct of its trust business, instead of acting personally, employ on any terms and pay an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Note Trustee (including the receipt and payment of money) and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.11 **Delegation**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may delegate to any person on any terms (including power to sub-delegate) all or any of its functions and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.12 **Nominees**

In relation to any asset held by it under this Trust Deed, the Note Trustee (using due skill, care and attention) may appoint any person to act as its nominee on any terms and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.13 **Forged Notes**

The Note Trustee shall not be liable to any of the Issuers or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note,

Certificate, Coupon or Talon purporting to be such and later found to be forged or not authentic.

11.14 **Confidentiality**

Unless ordered to do so by a court of competent jurisdiction, the Note Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential financial or other information made available to the Note Trustee by the Relevant Issuer.

11.15 **Determinations Conclusive**

As between itself and the Noteholders and Couponholders, the Note Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Note Trustee, shall be conclusive and shall bind the Note Trustee, the Noteholders and the Couponholders.

11.16 **Currency Conversion**

Where it is necessary or desirable to convert any sum from one currency to another, it shall (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Note Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified shall be binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.17 **Events of Default etc.**

The Note Trustee shall not be bound to give notice to any person of the execution of this Trust Deed or to take any steps to ascertain whether any Event of Default has happened and, until it shall have actual knowledge or express notice to the contrary, the Note Trustee shall be entitled to assume that no such Event of Default has happened and that the Relevant Issuer is observing and performing all the obligations on its part contained in the Notes and Coupons and under this Trust Deed and no event has happened as a consequence of which any of the Notes may become repayable. Without prejudice to the foregoing, the Note Trustee may determine whether or not an Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Noteholders. Any such determination shall be conclusive and binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.18 **Payment for and Delivery of Notes**

The Note Trustee shall not be responsible for the receipt or application by the Relevant Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

11.19 **Notes Held by the Relevant Issuer etc.**

In the absence of knowledge or express notice to the contrary, the Note Trustee may assume without enquiry (other than requesting a certificate under Clause 9(h) (*Certificate*

of Notes Held) that no Notes are for the time being held by or on behalf of the Relevant Issuer or its Subsidiaries.

11.20 **Legal Opinions**

The Note Trustee shall not be responsible to any person for failing to request, require or receive any legal opinion relating to any Notes or for checking or commenting upon the content of any such legal opinion.

11.21 **Programme Limit**

The Note Trustee shall not be concerned, and need not enquire, as to whether or not any Notes are issued in breach of the Programme Limit.

11.22 **Responsibility for agents etc**

The Note Trustee will not have any obligation to supervise any custodian, agent, delegate or nominee appointed under this clause (an "**Appointee**") or be responsible for any Liability incurred by reason of the Appointee's misconduct or default or the misconduct or default of any substitute appointed by the Appointee.

11.23 **Reliance on certification of clearing system**

The Note Trustee may call for any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system in relation to any matter. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Note Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any such certificate or other document purporting to be issued by Euroclear or Clearstream, Luxembourg or any other relevant clearing system and subsequently found to be forged or not authentic.

11.24 **Noteholders as a class**

Whenever in this Trust Deed the Note Trustee is required in connection with any exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Noteholders, it shall have regard to the interests of the Noteholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not be obliged to have regard to the consequences of such exercise for any individual Noteholder resulting from his or its being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

11.25 **Note Trustee not responsible for investigations**

The Note Trustee shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person

contained in this Trust Deed, the Notes or any other agreement or document relating to the transactions herein or therein contemplated or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof.

11.26 No obligation to monitor

The Note Trustee shall be under no obligation to monitor or supervise the functions of any other person under the Notes or any other agreement or document relating to the transactions herein or therein contemplated and shall be entitled, in the absence of actual knowledge of a breach of obligation, to assume that each such person is properly performing and complying with its obligations.

11.27 Entry on the Register

The Note Trustee shall not be liable to the Relevant Issuer or any Noteholder by reason of having accepted as valid or not having rejected any entry on the Register later found to be forged or not authentic and can assume for all purposes in relation hereto that any entry on the Register is correct.

11.28 Interests of accountholders or participants

So long as any Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, in considering the interests of Noteholders the Note Trustee may consider the interests (either individual or by category) of its accountholders or participants with entitlements to any such Note as if such accountholders or participants were the holder(s) thereof.

11.29 Note Trustee not Responsible

The Note Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Trust Deed or any other document relating thereto and shall not be liable for any failure to obtain or maintain any rating of Notes (where required), any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or any other document relating thereto. In addition the Note Trustee shall not be responsible for the effect of the exercise of any of its powers, duties and discretions hereunder.

11.30 Freedom to Refrain

Notwithstanding anything else herein contained, the Note Trustee may refrain from doing anything which would or might in its opinion be contrary to any law of any jurisdiction or any directive or regulation of any agency or any state or which would or might otherwise render it liable to any person and may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

11.31 Right to Deduct or Withhold

Notwithstanding anything contained in this Trust Deed, to the extent required by any applicable law, if the Note Trustee is or will be required to make any deduction or withholding from any distribution or payment made by it hereunder or if the Note Trustee is or will be otherwise charged to, or is or will become liable to, tax as a consequence of performing its duties hereunder whether as principal, agent or otherwise, and whether by reason of any assessment, prospective assessment or other imposition of liability to taxation of whatsoever nature and whensoever made upon the Note Trustee, and whether in connection with or arising from any sums received or distributed by it or to which it may be entitled under this Trust Deed (other than in connection with its remuneration as provided for herein) or any investments or deposits from time to time representing the same, including any income or gains arising therefrom or any action of the Note Trustee in connection with the trusts of this Trust Deed (other than the remuneration herein specified) or otherwise, then the Note Trustee shall be entitled to make such deduction or withholding or, as the case may be, to retain out of sums received by it an amount sufficient to discharge any liability to tax which relates to sums so received or distributed or to discharge any such other liability of the Note Trustee to tax from the funds held by the Note Trustee upon the trusts of this Trust Deed.

11.32 Error of judgment

The Note Trustee shall not be liable for any error of judgment made in good faith by any officer or employee of the Note Trustee assigned by the Note Trustee to administer its corporate trust matters.

11.33 Professional charges

Any trustee being a banker, lawyer, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for business transacted and acts done by him or his partner or firm on matters arising in connection with the trusts of this Trust Deed and also his properly incurred charges in addition to disbursements for all other work and business done and all time spent by him or his partner or firm on matters arising in connection with this Trust Deed, including matters which might or should have been attended to in person by a trustee not being a banker, lawyer, broker or other professional person.

11.34 Expenditure by the Note Trustee

Nothing contained in this Trust Deed shall require the Note Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

11.35 Regulatory Position

Notwithstanding anything in the Trust Deed or any other Programme document to the contrary, the Note Trustee shall not do, or be authorised or required to do, anything which might constitute a regulated activity for the purpose of FSMA, unless it is authorised under FSMA to do so.

The Note Trustee shall have the discretion at any time:

- (a) to delegate any of the functions which fall to be performed by an authorised person under FSMA to any other agent or person which also has the necessary authorisations and licences; and
- (b) to apply for authorisation under FSMA and perform any or all such functions itself if, in its absolute discretion, it considers it necessary, desirable or appropriate to do so.

Nothing in this Trust Deed shall require the Note Trustee to assume an obligation of the Relevant Issuers arising under any provisions of the listing, prospectus, disclosure or transparency rules (or equivalent rules of any other competent authority besides the Financial Conduct Authority).

11.36 **Not Bound to Act**

In relation to any discretion to be exercised or action to be taken by the Note Trustee under any Programme document, the Note Trustee may, at its discretion and without further notice or shall, if it has been so directed by an extraordinary resolution of the Noteholders of any Series or so requested in writing by the holders of at least 25 per cent. in principal amount of Notes of any Series, exercise such discretion or take such action, provided that, in either case, the Note Trustee shall not be obliged to exercise such discretion or take such action unless it shall have been indemnified, secured and/or prefunded to its satisfaction against all liabilities and provided that the Note Trustee shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual noteholders.

11.37 **Personal Data**

Notwithstanding the other provisions of the Programme documents, the Note Trustee may collect, use and disclose personal data about the parties (if any are an individual) or individuals associated with the Relevant Issuer and/or other parties, so that the Note Trustee can carry out its obligations to the Relevant Issuer and the other parties and for other related purposes, including auditing, monitoring and analysis of its business, fraud and crime prevention, money laundering, legal and regulatory compliance and the marketing by the Note Trustee or members of the Note Trustee's corporate group of other services. The Note Trustee will keep the personal data up to date. The Note Trustee may also transfer the personal data to any country (including countries outside the European Economic Area where there may be less stringent data protection laws) to process information on the Note Trustee's behalf. Wherever it is processed, the personal data will be protected by a strict code of secrecy and security to which all members of the Note Trustee's corporate group, their staff and any third parties are subject, and will only be used in accordance with the Note Trustee's instructions.

12. **NOTE TRUSTEE LIABLE FOR NEGLIGENCE**

Section 1 of the Trustee Act 2000 shall not apply to any function of the Note Trustee where there are any inconsistencies between the Trustee Acts and the provisions of this

Trust Deed, the provisions of this Trust Deed shall, to the extent allowed by law, prevail and, in the case of any such inconsistency with the Trustee Act 2000, the provisions of this Trust Deed shall constitute a restriction or exclusion for the purposes of that Act.

Subject to Sections 750 and 751 of the Companies Act 2006 (if applicable) and notwithstanding anything to the contrary the Programme documents, the Note Trustee shall not be liable to any person for any matter or thing done or omitted in any way in connection with or in relation to the Programme documents, save in connection with its own gross negligence, wilful default or fraud.

Any liability of the Note Trustee arising under the Programme documents shall be limited to the amount of actual loss suffered (such loss shall be determined as at the date of default of the Note Trustee or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Note Trustee at the time of entering into the Programme documents, or at the time of accepting any relevant instructions, which increase the amount of the loss. In no event shall the Note Trustee be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive or consequential damages, whether or not the Note Trustee has been advised of the possibility of such loss or damages. This clause shall not apply in the event that a court with jurisdiction determines that the Note Trustee has acted fraudulently or to the extent the limitation of such liability would be precluded by virtue of Sections 750 and 751 of the Companies Act 2006.

13. **WAIVER**

The Note Trustee may, without the consent or sanction of the Noteholders or Couponholders and without prejudice to its rights in respect of any subsequent breach, condition, event or act from time to time and at any time, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, waive or authorise, on such terms and conditions as seem expedient to it, any breach or proposed breach by the Relevant Issuer of this Trust Deed or the Conditions or the Notes or Coupons or determine that an Event of Default shall not be treated as such for the purposes of this Trust Deed provided that the Note Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 12 (*Events of Default*). No such direction or request shall affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires the Relevant Issuer shall cause such waiver, authorisation or determination to be notified to the Noteholders as soon as practicable in accordance with the Conditions.

14. **FREEDOM TO ACT**

None of the Note Trustee or its directors and officers should be precluded from entering into transactions in the ordinary course of business with any of the other parties or be accountable for the same (including any profit therefrom) to Noteholders or any person.

15. **MODIFICATION AND SUBSTITUTION**

15.1 **Modification**

The Note Trustee may agree without the consent of the Noteholders or Couponholders to any modification to this Trust Deed or the Conditions or the Notes or Coupons which is, in its opinion, of a formal, minor or technical nature or to correct a manifest error. The Note Trustee may also so agree to any modification to this Trust Deed or the Notes that is in its opinion not materially prejudicial to the interests of the Noteholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 2 of Schedule 7 (*Provisions for Meetings of Noteholders*). Any such modification shall be binding on the Noteholders and the Couponholders and, unless the Note Trustee otherwise agrees, the Relevant Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Conditions.

15.2 Substitution

- (a) The Note Trustee may, without the consent of the Noteholders or Couponholders, agree to the substitution of the Relevant Issuer's successor in business (the "**Substituted Obligor**") in place of the Relevant Issuer (or of any previous substitute under this Subclause) as the principal debtor under this Trust Deed, the Notes, the Coupons and the Talons provided that:
- (i) a deed is executed or undertaking given by the Substituted Obligor to the Note Trustee, in form and manner satisfactory to the Note Trustee, agreeing to be bound by this Trust Deed, the Notes, the Coupons and the Talons (with consequential amendments as the Note Trustee may deem appropriate, including any necessary change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed) as if the Substituted Obligor had been named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer or any previous substitute under this Subclause;
 - (ii) the Note Trustee is satisfied that (i) the Substituted Obligor has obtained all governmental and regulatory approvals and consents necessary for its assumption of liability as principal debtor in respect of the Notes and the Coupons in place of the Relevant Issuer (or such previous substitute as aforesaid) and (ii) such approvals and consents are at the time of substitution in full force and effect;
 - (iii) the Note Trustee may request legal opinions in a form and manner acceptable to it in relation to the Substituted Obligor;
 - (iv) without prejudice to the rights of reliance of the Note Trustee under Subclause 15.2(b) the Note Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
 - (v) Moody's and S&P have confirmed in writing to the Note Trustee that the substitution of the Substituted Obligor will not result in a downgrading of the then current credit rating of such rating agencies applicable to the class of debt represented by the Notes;

- (vi) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Relevant Issuer is subject generally (the "**Issuer's Territory**"), the Substituted Obligor shall (unless the Note Trustee otherwise agrees) give to the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to Condition 10 (*Taxation*) with the substitution for the references in that Condition to the Relevant Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be read accordingly;
- (vii) if any two directors of the Substituted Obligor certify that it will be solvent immediately prior to such substitution, the Note Trustee need not have regard to the Substituted Obligor's financial condition, profits or prospects or compare them with those of the Relevant Issuer or any previous substitute under this Subclause;
- (viii) the Relevant Issuer, and the Substituted Obligor comply with such other requirements as the Note Trustee may direct in the interests of the Noteholders and the Couponholders; and
- (ix) (unless the Relevant Issuer's successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under this Trust Deed, the Notes and the Coupons are guaranteed by the Relevant Issuer to the Note Trustee's satisfaction.

(b) **Release of Substituted Issuer**

An agreement by the Note Trustee pursuant to this Clause 15.2 shall, if so expressed, release the Relevant Issuer (or a previous substitute) from any or all of its obligations under this Trust Deed, the Notes, the Coupons and the Talons. Notice of the substitution shall be given to the Noteholders within 14 days of the execution of such documents and compliance with such requirements.

(c) **Completion of Substitution**

On completion of the formalities set out in this Clause 15.2, the Substituted Obligor shall be deemed to be named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer (or of any previous substitute) and this Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be deemed to be amended as necessary to give effect to the substitution.

16. **APPOINTMENT, RETIREMENT AND REMOVAL OF THE NOTE TRUSTEE**

16.1 **Appointment**

Subject as provided in Clause 16.2 (*Retirement and Removal*), each Relevant Issuer has the power of appointing new trustees but no-one may be so appointed in relation to a

Series of Notes unless previously approved by an Extraordinary Resolution of the Noteholders of such Series of Notes. A trust corporation shall at all times be a Note Trustee and may be the sole Note Trustee. Any appointment of a new Note Trustee shall be notified by the Relevant Issuer to the Agents and to the Noteholders as soon as practicable.

16.2 Retirement and Removal

Any Note Trustee may retire at any time on giving at least three calendar months' written notice to the Issuers without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders of any Series may by Extraordinary Resolution remove any Note Trustee in relation to such Series provided that the retirement or removal of a sole trust corporation shall not be effective until a trust corporation is appointed as successor Note Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the Relevant Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as Note Trustee but if it fails to do so within 30 days of the expiry of such three month notice period, the Note Trustee shall have the power to appoint a new Note Trustee.

16.3 Co-Note Trustees

The Note Trustee may, despite Subclause 16.1 (*Appointment*), by written notice to the Relevant Issuer (with a copy to Moody's and S&P) appoint anyone to act as an additional Note Trustee jointly with the Note Trustee:

- (a) if the Note Trustee considers the appointment to be in the interests of the Noteholders and/or the Couponholders; or
- (b) to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or
- (c) to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

Subject to the provisions of this Trust Deed the Note Trustee may confer on any person so appointed such functions as it thinks fit. The Note Trustee may by written notice to each Relevant Issuer and that person remove that person. At the Note Trustee's request, each Relevant Issuer shall forthwith do all things as may be required to perfect such appointment or removal and each Relevant Issuer irrevocably appoints the Note Trustee as its attorney in its name and on its behalf to do so.

16.4 Competence of a Majority of Note Trustees

If there are more than two Note Trustees the majority of them shall be competent to perform the Note Trustee's functions provided the majority includes a trust corporation.

16.5 Merger

Any corporation into which the Note Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or

consolidation to which the Note Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Note Trustee, shall be the successor of the Note Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Clause, without the execution or filing of any paper or any further act on the part of any of the parties thereto.

17. NOTES HELD IN CLEARING SYSTEMS AND COUPONHOLDERS

17.1 Notes Held in Clearing Systems

So long as any Global Note is, or any Notes represented by a Global Certificate are, held on behalf of a clearing system, in considering the interests of Noteholders, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders or participants with entitlements to any such Global Note or the Registered Notes and may consider such interests on the basis that such accountholders or participants were the holder(s) thereof.

17.2 Couponholders

No notices need be given to Couponholders. They shall be deemed to have notice of the contents of any notice given to Noteholders. Even if it has express notice to the contrary, in exercising any of its functions by reference to the interests of the Noteholders, the Note Trustee shall assume that the holder of each Note is the holder of all Coupons and Talons relating to it.

18. CURRENCY INDEMNITY

18.1 Currency of Account and Payment

The Contractual Currency is the sole currency of account and payment for all sums payable by the Relevant Issuer under or in connection with this Trust Deed, the Notes and the Coupons, including damages.

18.2 Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Relevant Issuer or otherwise), by the Note Trustee or any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Relevant Issuer shall only discharge the Relevant Issuer to the extent of the Contractual Currency amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

18.3 Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed, the Notes or the Coupons,

each Relevant Issuer (on a several (and not joint) basis only) shall indemnify it against any Liabilities sustained by it as a result. In any event, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify the recipient against the cost of making any such purchase.

18.4 **Indemnity Separate**

The indemnities in this Clause 18 (*Currency Indemnity*) and in Subclause 10.5 (*Indemnity*) constitute separate and independent obligations from the other obligations in this Trust Deed, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Note Trustee and/or any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Notes and/or the Coupons or any other judgment or order. Any such Liability as referred to in Subclause 18.3 (*Indemnity*) shall be deemed to constitute a Liability suffered by the Note Trustee, the Noteholders and the Couponholders and no proof or evidence of any actual Liability shall be required by the Relevant Issuer or its liquidator(s).

19. **COMMUNICATIONS**

19.1 **Method**

Each communication under this Trust Deed shall be made in English by fax, electronic communication or otherwise in writing. Each communication or document to be delivered to any party under this Trust Deed shall be sent to that party at the fax number, postal address or electronic address, and marked for the attention of the person (if any), from time to time designated by that party to each other party for the purpose of this Trust Deed. The initial fax number, postal address, electronic address and person so designated by the parties under this Trust Deed are set out in the Procedures Memorandum.

19.2 **Deemed Receipt**

Any communication from any party to any other under this Trust Deed shall be effective, (if by fax) when the relevant delivery receipt is received by the sender, (if in writing) when delivered and (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

19.3 **No Notice to Couponholders**

Neither the Note Trustee nor the Relevant Issuer shall be required to give any notice to the Couponholders for any purpose under this Trust Deed and the Couponholders shall

be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with Condition 18 (*Notices*).

20. SEVERAL OBLIGATIONS AND NO CROSS-DEFAULT

Notwithstanding any other provision of this Trust Deed (or any other document entered into in connection with the issue of the Notes), the obligations of each Issuer are several and if a misrepresentation, breach, default or event of default (or anything analogous thereto) (a "**Default**") occurs as a result of any act or omission or state of affairs which, in each case, relates only to an Issuer, such Default shall be deemed not to have occurred in relation to the other Issuers (the "**Other Issuers**") and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement or remedied action may be taken against the Other Issuers.

21. FURTHER PROVISIONS

21.1 Partial Invalidity

If, at any time, any provision of this Trust Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

21.2 Counterparts

This Trust Deed may be executed manually or by facsimile in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Trust Deed.

22. GOVERNING LAW AND JURISDICTION

22.1 Governing Law

This Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

22.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons ("**Proceedings**") may be brought in such courts. The Issuers irrevocably submit to the jurisdiction of such courts and waive any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Clause is for the benefit of each of the Note Trustee, the Noteholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent

jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

22.3 **Service of process**

Each Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to such Issuer at Avonbank, Feeder Road, Bristol BS2 0TB (for the attention of Ian Williams, Treasurer), or to such other person with an address in England or Wales and/or at such other address in England or Wales as such Issuer may specify by notice in writing to the Note Trustee and the Noteholders. Nothing in this paragraph shall affect the right of the Note Trustee or any of the Noteholders to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

**SCHEDULE 1
FORM OF GLOBAL NOTES**

**PART 1
FORM OF CGN TEMPORARY GLOBAL NOTE**

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

TEMPORARY GLOBAL NOTE

Temporary Global Note No. [•]

This temporary Global Note is issued in respect of the Notes (the **Notes**) of the Tranche and Series specified in Part A of the Second Schedule hereto of [ISSUER] (the "**Issuer**").

Interpretation and Definitions

References in this temporary Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this temporary Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Second Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this temporary Global Note shall have the meanings given to them in the Conditions or the Trust Deed. If the Second Schedule hereto specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", this temporary Global Note is a "C Rules Note", otherwise this temporary Global Note is a "D Rules Note".

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this temporary Global Note shall be an amount equal to the aggregate nominal amount of the Notes as shall be shown by the latest entry in the fourth column of the First Schedule hereto, which shall be completed by or on behalf of the Issuing and Paying Agent upon (i) the issue of Notes represented hereby, (ii) the exchange of the whole or a part of this temporary Global Note for a corresponding interest in a permanent Global Note or, for Definitive Notes and/or (iii) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

Promise to Pay

Subject as provided herein, the Issuer, for value received, promises to pay to the bearer of this temporary Global Note, upon presentation and (when no further payment is due in respect of this temporary Global Note) surrender of this temporary Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this temporary Global Note and (unless this temporary Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

On or after the first day following the expiry of 40 days after the Issue Date (the "**Exchange Date**"), this temporary Global Note may be exchanged (free of charge to the holder) in whole or (in the case of a D Rules Note only) from time to time in part by its presentation and, on exchange in full, surrender to or to the order of the Issuing and Paying Agent for interests in a permanent Global Note or, if so specified in the Second Schedule hereto, for Definitive Notes in an aggregate nominal amount equal to the nominal amount of this temporary Global Note submitted for exchange provided that, in the case of any part of a D Rules Note submitted for exchange for a permanent Global Note or Definitive Notes, there shall have been Certification with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date.

"**Certification**" means the presentation to the Issuing and Paying Agent of a certificate or certificates with respect to one or more interests in this temporary Global Note, signed by Euroclear or Clearstream, Luxembourg, substantially to the effect set out in Schedule 4 (*Clearing System Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement to the effect that it has received a certificate or certificates substantially to the effect set out in Schedule 3 (*Accountholder Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement with respect thereto and that no contrary advice as to the contents thereof has been received by Euroclear or Clearstream, Luxembourg, as the case may be.

Upon the whole or a part of this temporary Global Note being exchanged for a permanent Global Note, such permanent Global Note shall be exchangeable in accordance with its terms for Definitive Notes.

The Definitive Notes for which this temporary Global Note or a permanent Global Note may be exchangeable shall be duly executed and authenticated, shall, in the case of Definitive Notes, have attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this temporary Global Note or the permanent Global Note, as the case may be, shall be security printed and shall be substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Second Schedule hereto.

On any exchange of a part of this temporary Global Note for an equivalent interest in a permanent Global Note or for Definitive Notes, as the case may be, the portion of the nominal amount hereof so exchanged shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so exchanged and endorsed.

Benefit of Conditions

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, due endorsement of) a permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. If any payment in full of principal is made in respect of any Note represented by this temporary Global Note, the portion of this temporary Global Note representing such Note shall be cancelled and the amount so cancelled shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto (such endorsement being prima facie evidence that the payment in question has been made) whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed. If any other payments are made in respect of the Notes represented by this temporary Global Note, a record of each such payment shall be endorsed by or on behalf of the Issuing and Paying Agent on an additional schedule hereto (such endorsement being *prima facie* evidence that the payment in question has been made).

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Day*).

Cancellation

Cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in

the nominal amount of this temporary Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This temporary Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this temporary Global Note

The following (i) issue of Notes initially represented by this temporary Global Note, (ii) exchanges of the whole or a part of this temporary Global Note for interests in a permanent Global Note or for Definitive Notes and/or (iii) cancellations or forfeitures of interests in this temporary Global Note have been made, resulting in the nominal amount of this temporary Global Note specified in the latest entry in the fourth column below:

Date	Amount of decrease in nominal amount of this temporary Global Note	Reason for decrease in nominal amount of this temporary Global Note (exchange, cancellation or forfeiture)	Nominal amount of this temporary Global Note on issue or following such decrease	Notation made by or on behalf of the Issuing and Paying Agent
Issue Date	not applicable	not applicable		

The Second Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Second Schedule]

PART 2
FORM OF CGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the **Notes**) of the Tranche(s) and Series specified in Part A of the Third Schedule hereto of [ISSUER] (the **Issuer**).

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this permanent Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Third Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this permanent Global Note shall have the meanings given to them in the Conditions or the Trust Deed.

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this permanent Global Note shall be an amount equal to the aggregate nominal amount of the Notes as shall be shown by the latest entry in the fourth column of the First Schedule hereto, which shall be completed by or on behalf of the Issuing and Paying Agent upon (i) the exchange of the whole or a part of the temporary Global Note initially representing the Notes for a corresponding interest herein (in the case of Notes represented by a temporary Global Note upon issue), (ii) the issue of the Notes represented hereby (in the case of Notes represented by this permanent Global Note upon issue), (iii) the exchange of the whole or, where the limited circumstances so permit, a part of this permanent Global Note for Definitive Notes and/or (iv) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

Promise to Pay

Subject as provided herein, the Issuer, for value received, hereby promises to pay to the bearer of this permanent Global Note, upon presentation and (when no further payment is due in respect of this permanent Global Note) surrender of this permanent Global Note, on the Maturity Date

(or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Third Schedule hereto.

Benefit of Conditions

Except as otherwise specified herein, this permanent Global Note is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or

comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. A record of each such payment shall be endorsed on the First or Second Schedule hereto, as appropriate, by the Issuing and Paying Agent or by the relevant Paying Agent, for and on behalf of the Issuing and Paying Agent, which endorsement shall (until the contrary is proved) be *prima facie* evidence that the payment in question has been made.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).

Prescription

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

Meetings

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

Cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of this permanent Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

Issuer's Options

Any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting this permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation accordingly in the Fourth Schedule hereto.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this permanent Global Note, rather than by publication as required by the Conditions.

Negotiability

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and
- (c) payment upon due presentation of this permanent Global Note as provided herein shall operate as a good discharge against such holder and all previous holders of this permanent Global Note.

No provisions of this permanent Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This permanent Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This permanent Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this permanent Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 1650) AND 1287(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this permanent Global Note

The following (i) issues of Notes initially represented by this permanent Global Note, (ii) exchanges of interests in a temporary Global Note for interests in this permanent Global Note, (iii) exchanges of the whole or a part of this permanent Global Note for Definitive Notes, (iv) cancellations or forfeitures of interests in this permanent Global Note and/or (v) payments of amounts payable upon redemption in respect of this permanent Global Note have been made, resulting in the nominal amount of this permanent Global Note specified in the latest entry in the fourth column:

Date	Amount of increase/decrease in nominal amount of this permanent Global Note	Reason for increase/decrease in nominal amount of this permanent Global Note (initial issue, exchange, cancellation, forfeiture or payment, stating amount of payment made)	Nominal amount of this permanent Global Note following such increase/decrease	Notation made by or on behalf of the Issuing and Paying Agent
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The Second Schedule

Payments of Interest

The following payments of interest or Interest Amount in respect of this permanent Global Note have been made:

Due date of payment	Date of payment	Amount of interest	Notation made by or on behalf of the Issuing and Paying Agent
<hr/>			

The Third Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Third Schedule.]

The Fourth Schedule

Exercise of Noteholders' Option

The following exercises of the option of the Noteholders provided for in the Conditions have been made in respect of the stated nominal amount of this permanent Global Note:

Date of exercise	Nominal amount of this permanent Global Note in respect of which exercise is made	Date of which exercise of such option is effective	Notation made by or on behalf of the Issuing and Paying Agent
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PART 3
FORM OF NGN TEMPORARY GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

TEMPORARY GLOBAL NOTE

Temporary Global Note No. [•]

This temporary Global Note is issued in respect of the Notes (the "**Notes**") of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the "**Issuer**").

Interpretation and Definitions

References in this temporary Global Note to the "**Conditions**" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer, and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this temporary Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this temporary Global Note shall have the meanings given to them in the Conditions or the Trust Deed. If the Second Schedule hereto specifies that the applicable TEFRA exemption is either "**C Rules**" or "**not applicable**", this temporary Global Note is a "**C Rules Note**", otherwise this temporary Global Note is a "**D Rules Note**".

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this temporary Global Note shall be an amount equal to the aggregate nominal amount of the Notes from time to time entered in the records of both Euroclear and Clearstream, Luxembourg (together the "**relevant Clearing Systems**"), which shall be completed and/or amended, as the case may be, upon (i) the issue of Notes represented hereby, (ii) the exchange of the whole or a part of this temporary Global Note for a corresponding interest recorded in the records of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes and/or (iii) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

The records of the relevant Clearing Systems (which expression in this temporary Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of such customers' interests in the Notes, but excluding any interest in any Notes of one Clearing System sharing the records of another Clearing System) shall be conclusive evidence of the nominal amount of the Notes represented by this temporary Global Note and, for these

purposes, a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by the temporary Global Note at any time shall be conclusive evidence of the records of the relevant Clearing Systems at that time.

Promise to Pay

Subject as provided herein, the Issuer, for value received, promises to pay to the bearer of this temporary Global Note, upon presentation and (when no further payment is due in respect of this temporary Global Note) surrender of this temporary Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this temporary Global Note and (unless this temporary Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

On or after the first day following the expiry of 40 days after the Issue Date (the "**Exchange Date**"), this temporary Global Note may be exchanged (free of charge to the holder) in whole or (in the case of a D Rules Note only) from time to time in part by its presentation and, on exchange in full, surrender to or to the order of the Issuing and Paying Agent for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or, if so specified in Part A of the Schedule hereto, for Definitive Notes in an aggregate nominal amount equal to the nominal amount of this temporary Global Note submitted for exchange provided that, in the case of any part of a D Rules Note submitted for exchange for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or Definitive Notes, there shall have been Certification with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date.

"**Certification**" means the presentation to the Issuing and Paying Agent of a certificate or certificates with respect to one or more interests in this temporary Global Note, signed by Euroclear or Clearstream, Luxembourg, substantially to the effect set out in Schedule 4 (*Clearing System Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement to the effect that it has received a certificate or certificates substantially to the effect set out in Schedule 3 (*Accountholder Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement with respect thereto and that no contrary advice as to the contents thereof has been received by Euroclear or Clearstream, Luxembourg, as the case may be.

Upon the whole or a part of this temporary Global Note being exchanged for a permanent Global Note, such permanent Global Note shall be exchangeable in accordance with its terms for Definitive Notes.

The Definitive Notes for which this temporary Global Note or a permanent Global Note may be exchangeable shall be duly executed and authenticated, shall, in the case of Definitive Notes,

have attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this temporary Global Note or the permanent Global Note, as the case may be, shall be security printed and shall be substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of Part A of the Schedule hereto.

On any exchange of a part of this temporary Global Note for an equivalent interest recorded in the records of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes, as the case may be, the Issuer shall procure that details of the portion of the nominal amount hereof so exchanged shall be entered pro rata in the records of the relevant Clearing Systems and upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by an amount equal to such portion so exchanged.

Benefit of Conditions

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, a corresponding entry being recorded in the records of the relevant Clearing Systems) a permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing Systems referred to herein shall not affect such discharge. If any payment in full or in part of principal is made in respect of any Note represented by this temporary Global Note the Issuer shall procure that details of such payment shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed. If any other payments are made in respect of the Notes represented by this temporary Global Note, the Issuer shall procure that

a record of each such payment shall be entered pro rata in the records of the relevant Clearing Systems.

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of "business day" in Condition 9(h) (*Non-Business Day*).

Cancellation

On cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (other than upon its redemption), the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant Clearing systems and, upon any such entry being made, the nominal amount of the Note recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg or any other permitted clearing system) to Euroclear, Clearstream, Luxembourg or such other permitted clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent and effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This temporary Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This temporary Global Note
is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory
For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule]

PART 4
FORM OF NGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the "Notes") of the Tranche(s) and Series specified in Part A of the Schedule hereto of [ISSUER] (the "Issuer").

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this permanent Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this permanent Global Note shall have the meanings given to them in the Conditions or the Trust Deed.

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this permanent Global Note shall be an amount equal to the aggregate nominal amount of the Notes from time to time entered in the records of both Euroclear and Clearstream, Luxembourg (together, the "**relevant Clearing Systems**"), which shall be completed and/or amended as the case may be upon (i) the exchange of the whole or a part of the interests recorded in the records of the relevant Clearing Systems in the temporary Global Note initially representing the Notes for a corresponding interest herein (in the case of Notes represented by a temporary Global Note upon issue), (ii) the issue of the Notes represented hereby (in the case of Notes represented by this permanent Global Note upon issue), (iii) the exchange of the whole or, where the limited circumstances so permit, a part of this permanent Global Note for Definitive Notes and/or (iv) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

The records of the relevant Clearing Systems (which expression in this permanent Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of such customers' interests in the Notes, but excluding any interest in any Notes of one Clearing System sharing the records of another Clearing System) shall be conclusive evidence

of the nominal amount of the Notes represented by this permanent Global Note and, for these purposes, a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by this permanent Global

Note at any time shall be conclusive evidence of the records of the relevant Clearing System at that time.

Promise to Pay

Subject as provided herein, the Issuer, for value received, hereby promises to pay to the bearer of this permanent Global Note, upon presentation and (when no further payment is due in respect of this permanent Global Note) surrender of this permanent Global Note on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other permitted clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest, that have not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of Part A of the Schedule hereto.

Benefit of Conditions

Except as otherwise specified herein, this permanent Global Note, the Issuer shall procure that is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing Systems referred to herein shall not affect such discharge. The Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant Clearing Systems and in the case of any payment of principal and upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).

Prescription

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

Meetings

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

On cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption), the Issuer shall procure that details

of such cancellation shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

Purchase

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

Issuer's Options

Any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Issuing and Paying Agent, the Noteholders and the relevant Clearing Systems (or procuring that such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the case of a partial exercise of an option, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this permanent Global Note shall be reduced accordingly.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or an Alternative Clearing System) to Euroclear, Clearstream, Luxembourg and/or such Alternative Clearing System, as the case may be, or otherwise to the holder of this permanent Global Note, rather than by publication as required by the Conditions.

Negotiability

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions;
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and;
- (c) payment upon due presentation of this permanent Global Note as provided herein shall operate as a good discharge against such holder and all previous holders of this permanent Global Note.

No provisions of this permanent Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This permanent Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent and effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This permanent Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this permanent Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This permanent Global Note
is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory

For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule.]

PART 5
FORM OF GLOBAL CERTIFICATE

THIS SECURITY HAS NOT AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND THE TRUST DEED AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

GLOBAL CERTIFICATE

Global Certificate No. [•]

This Global Certificate is issued in respect of the nominal amount specified above of the Notes (the "**Notes**") of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the "**Issuer**"). This Global Certificate certifies that the person whose name is entered in the Register (the "**Registered Holder**") is registered as the holder of an issue of Notes of the nominal amount, specified currency and specified denomination set out in Part A of the Schedule hereto.

Interpretation and Definitions

References in this Global Certificate to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this Global Certificate (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this Global Certificate shall have the meanings given to them in the Conditions or the Trust Deed.

Promise to Pay

The Issuer, for value received, promises to pay to the holder of the Notes represented by this Global Certificate upon presentation and (when no further payment is due in respect of the Notes represented by this Global Certificate) surrender of this Global Certificate on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Notes represented by this Global Certificate and (unless the Notes represented by this Certificate do not bear interest) to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the methods of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by this Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

For the purposes of this Global Certificate, (a) the holder of the Notes represented by this Global Certificate is bound by the provisions of the Agency Agreement, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Notes represented by this Global Certificate, (c) this Global Certificate is evidence of entitlement only, (d) title to the Notes represented by this Global Certificate passes only on due registration on the Register, and (e) only the holder of the Notes represented by this Global Certificate is entitled to payments in respect of the Notes represented by this Global Certificate.

Transfer of Notes represented by permanent Global Certificates

If the Schedule hereto states that the Notes are to be represented by a permanent Global Certificate on issue, transfers of the holding of Notes represented by this Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (a) if the Notes represented by this Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or
- (b) with the consent of the Issuer

provided that, in the case of the first transfer of part of a holding pursuant to (a) above, the holder of the Notes represented by this Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Notes represented by this Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Issuer's Options

In connection with an exercise of the option contained in Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) in relation to some only of the Notes, the Notes represented by this Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the Noteholder giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent, as set out in the Conditions, substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

Notices

Notwithstanding Condition 18 (*Notices*), so long as this Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Determination of Entitlement

This Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Noteholder is entitled to payment in respect of this Global Certificate.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by this Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

This Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar and in the case of Registered Notes held under the NSS only, effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This Global Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this Global Certificate to be signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This Global Certificate is authenticated by or on behalf of the Registrar.

HSBC BANK PLC
as Registrar

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This Global Certificate is effectuated
by or on behalf of the Common Safekeeper

[COMMON SAFEKEEPER]
as Common Safekeeper

By:

Authorised Signatory
For the purposes of effectuation of Registered Notes held through the NSS only

Form of Transfer

For value received the undersigned transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] nominal amount of the Notes represented by this Global Certificate, and all rights under them.

Dated

Signed

Certifying Signature

Notes:

- (a) The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Notes represented by this Global Certificate or (if such signature corresponds with the name as it appears on the face of this Global Certificate) be certified by a notary public or a recognised bank or be

supported by such other evidence as a Transfer Agent or the Registrar may reasonably require.

- (b) A representative of the Noteholder should state the capacity in which he signs e.g. executor.
-

Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Certificate as the Schedule.]

**SCHEDULE 2
FORM OF DEFINITIVE BEARER NOTE**

On the front:

[Denomination] [ISIN] [Series] [Certif. No.]

[Currency and denomination]

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

This Note forms one of the series of Notes referred to above (the "Notes") of [ISSUER] (the "Issuer") designated as specified in the title hereof. The Notes are subject to the Terms and Conditions (the "Conditions") endorsed hereon and are issued subject to, and with the benefit of, the Trust Deed referred to in the Conditions. Expressions defined in the Conditions have the same meanings in this Note.

The Issuer for value received promises to pay to the bearer of this Note, on presentation and (when no further payment is due in respect of this Note) surrender of this Note on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions and (unless this Note does not bear interest) to pay interest from the Interest Commencement Date in arrear at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

This Note shall not become valid or obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

IN WITNESS whereof the Issuer has caused this Note to be signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This Note is authenticated
by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC

as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

On the back:

Terms and Conditions of the Notes

[The Terms and Conditions that are set out in Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as amended by and incorporating any additional provisions forming part of such Terms and Conditions and set out in Part A of the relevant [Final Terms/Pricing Supplement] shall be set out here.]

ISSUING AND PAYING AGENT

[ISSUING AND PAYING AGENT]

PAYING AGENT[S]

-
-
-

**SCHEDULE 3
FORM OF CERTIFICATE**

On the front:

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

This Certificate certifies that [•] of [•] (the "**Registered Holder**") is, as at the date hereof, registered as the holder of [nominal amount] of Notes of the series of Notes referred to above (the "**Notes**") of [ISSUER] (the "**Issuer**"), designated as specified in the title hereof. The Notes are subject to the Terms and Conditions (the "**Conditions**") endorsed hereon and are issued subject to, and with the benefit of, the Trust Deed referred to in the Conditions. Expressions defined in the Conditions have the same meanings in this Certificate.

The Issuer, for value received, promises to pay to the holder of the Note(s) represented by this Certificate upon presentation and (when no further payment is due in respect of the Note(s) represented by this Certificate) surrender of this Certificate on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Notes represented by this Certificate and (unless the Note(s) represented by this Certificate do not bear interest) to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

For the purposes of this Certificate, (a) the holder of the Note(s) represented by this Certificate is bound by the provisions of the Agency Agreement, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Note(s) represented by this Certificate, (c) this Certificate is evidence of entitlement only, (d) title to the Note(s) represented by this Certificate passes only on due registration on the Register, and (e) only the holder of the Note(s) represented by this Certificate is entitled to payments in respect of the Note(s) represented by this Certificate.

This Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

IN WITNESS whereof the Issuer has caused this Certificate to be signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This Certificate is authenticated
by or on behalf of the Registrar.

HSBC BANK PLC
as Registrar

By:

Authorised Signatory
For the purposes of authentication only.

On the back:

Terms and Conditions of the Notes

[The Terms and Conditions that are set out in Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as amended by and incorporating any additional provisions forming part of such Terms and Conditions and set out in Part A of the relevant [Final Terms/Pricing Supplement] shall be set out here.]

Form of Transfer

For value received the undersigned transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] nominal amount of the Notes represented by this Certificate, and all rights under them.

Dated

Signed _____

Certifying Signature

Notes:

- (a) The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Notes represented by this Certificate or (if such signature corresponds with the name as it appears on the face of this Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent or the Registrar may reasonably require.
- (b) A representative of the Noteholder should state the capacity in which he signs.

Unless the context otherwise requires capitalised terms used in this Form of Transfer have the same meaning as in the Trust Deed dated 10 September 2013 between the Issuer and the Note Trustee, [OTHER].

[TO BE COMPLETED BY TRANSFEREE:

[INSERT ANY REQUIRED TRANSFEREE REPRESENTATIONS, CERTIFICATIONS, ETC.]]

ISSUING AND PAYING AGENT, TRANSFER AGENT [AND REGISTRAR]

[ISSUING AND PAYING AGENT]

[•]

PAYING AGENT[S] AND TRANSFER AGENT[S]

[•]

SCHEDULE 4 TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (as defined below) are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated on 9 September 2016 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales** and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

Notes means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons

(the **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by

law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

2. No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be

issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f) (*Redemption at the Option of Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d) (*Delivery of New Certificates*), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that

Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes and the Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) direct, general, unconditional and unsecured obligations of the Issuers and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuers under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuers present and future.

4. Negative Pledge and Restriction on Distribution of Dividends

- (a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer will ensure that no Relevant Indebtedness (as defined below) of the Relevant Issuer and no guarantee by the Relevant Issuer of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Relevant Issuer unless the Relevant Issuer, before or at the same time as the creation of the Security Interest, takes any and all action necessary to ensure that:
- (i) all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed are secured equally and ratably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Note Trustee; or
 - (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed either (A) as the Note Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Restriction on distribution of dividends:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer shall not at any time declare or make a distribution (as defined in Section 1000 of the Corporation Tax Act 2010) or grant a loan or any other credit facility to any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the

year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Relevant Issuer, has been provided to the Note Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Note Trustee without further enquiry or evidence and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties whether or not addressed to each such party.

(c) **Definitions:** In this Condition:

borrowed money means (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

Net Debt at any time, means the aggregate amount of all indebtedness for borrowed money of the Relevant Issuer at such time less the aggregate of:

- (i) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;
- (ii) cash in hand;
- (iii) the lower of book and market value (calculated, where relevant, by reference to their bid price) of gilts issued by the United Kingdom Government; and
- (iv) subordinated intra-group items, loans from Affiliates (as defined in Condition 7 below) and shareholder loans,

in each case beneficially owned by the Relevant Issuer and in each case so that no amount shall be included or excluded more than once.

Regulatory Asset Base means in respect of any year, the regulatory asset base of the Relevant Issuer most recently published and as last determined and notified to the Relevant Issuer in respect of such year by the Great Britain Office of the Gas and Electricity Markets (**Ofgem**) or any successor of Ofgem (interpolated as necessary and adjusted for additions to the regulatory asset base of the Relevant Issuer and adjusted as appropriate for out-term inflation/regulatory depreciation in respect of the Relevant Issuer).

Relevant Indebtedness means:

- (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which are or are capable

of being quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market;

- (ii) monies borrowed or raised from, or any acceptance credit opened by, a bank, building society or other financial institution; and
- (iii) any leasing or hire purchase agreement which would be treated as a finance lease in the accounts of the relevant person.

Any reference to an obligation being "guaranteed" shall include a reference to an indemnity being given in respect of that obligation.

5. Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).
- (b) **Interest on Floating Rate Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*). Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would

thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the relevant Final Terms
- (y) the Designated Maturity is a period specified in the relevant Final Terms and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity**, **Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
 - (1) the offered quotation; or
 - (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Final Terms.

- (y) if the Relevant Screen Page is not available, or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of

them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Relevant Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be zero coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Early Redemption*:)).

- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the

Rate of Interest in the manner provided in this Condition 5 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).

(e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**

(i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (Interest on Floating Rate Notes) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be

required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each denomination of the Notes for the relevant Interest Accrual Period, Interest Period or Interest Payment Date calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation and/or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period, Interest Period or Interest Payment Date and, if required, the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Relevant Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Linear Interpolation:** Where "Linear Interpolation" is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however* that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (i) **Determination or Calculation by Note Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, or take any action that it is required to do pursuant to these Conditions, the Calculation Agent shall forthwith notify the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent and the Note Trustee (whether or not it receives such notice) shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**) and a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in each (if any) Business Centre.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **Actual/365 (Fixed)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if **Actual/365 (Sterling)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Period Date falling in a leap year, 366

- (iv) if **Actual/360** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360
- (v) if **30/360, 360/360** or **Bond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if **30E/360** or **Eurobond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₂ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

- (viii) if **Actual/Actual-ICMA** is specified in the Final Terms,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date and

Determination Date means the date(s) specified as such in the Final Terms or, if none is so specified, the Interest Payment Date(s)

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

Interest Amount means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as

being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

Interest Commencement Date means the Issue Date or such other date as may be specified in the Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

Interest Period means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

Interest Period Date means each Interest Payment Date unless otherwise specified in the Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc..

Rate of Interest means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

Reference Rate means the rate specified as such in the Final Terms (being either LIBOR or EURIBOR).

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms.

Specified Currency means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Relevant Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) **Adjustment to Rate of Interest:** If, in respect of a Tranche of Notes, **Ratings Downgrade Rate Adjustment** is specified in the relevant Final Terms as being applicable, the Rate of Interest specified in the Final Terms (the **Initial Rate of Interest**) and payable on the Notes will be subject to adjustment from time to time in the event of a Rating Change or Rating Changes, within the period from and including the Issue Date of such Tranche of Notes to and including the date falling 18 months from such Issue Date (the **Rating Change Period**, with the final date of such Rating Change Period being the **Rating Change Period End Date**), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

- (i) the lowest Rating then assigned to the Notes is A- or A3 or higher, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest;
- (ii) the lowest Rating then assigned to the Notes is BBB+ or Baa1, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.25 per cent. per annum;
- (iii) the lowest Rating then assigned to the Notes is BBB or Baa2, then (unless there is a subsequent Rating Change within the Rating Change Period) from and

including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.50 per cent. per annum; or

- (iv) the lowest Rating then assigned to the Notes is BBB- or Baa3 or lower, or if such Ratings are withdrawn by both of Moody's Investor Services Limited and Standard & Poor's Credit Market Services Europe Limited, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.75 per cent. per annum

in each case, the **Revised Rate of Interest**.

Following each Rating Change the Relevant Issuer will notify the Noteholders of the Revised Rate of Interest following such Rating Change in accordance with the provisions of Condition 18 (*Notices*) as soon as reasonably practicable after the occurrence of the Rating Change. If, in respect of an Interest Period (the **Relevant Interest Period**), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(l) during the Rating Change Period, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Initial Interest Rate plus 0.75 per cent. per annum. For the avoidance of doubt, the rate of interest payable on the Notes from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Notes shall be determined in accordance with the Ratings assigned to the Notes as of the Rating Change Period End Date.

Rating Agency means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors or Moody's Investors Service Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee; and

Rating Change means the public announcement by any Rating Agency assigning a credit rating to the Notes of a change in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied.

6. Redemption, Purchase and Options

(a) Final Redemption:

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the **Amortised Face Amount** of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c) (Zero Coupon Notes).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (Events of Default), shall be the Final Redemption Amount unless otherwise specified in the Final Terms.
- (c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Note) or at any time (if this Note is neither a Floating Rate Note nor an Indexed Note), on giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 18 (Notices) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (Early Redemption) above) (together with interest accrued to the date fixed for redemption), if (i) the Relevant Issuer satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Relevant Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c) (Redemption for Taxation Reasons), the Relevant Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Relevant Issuer stating that the obligation referred to in (i) above cannot be avoided by the Relevant Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

- (d) **Redemption for Indexation Reasons**: Upon the occurrence of any Index Event (as defined below), the Relevant Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Note Trustee and the holders of the Indexed Notes in accordance with Condition 18 (*Notices*), redeem all (but not some only) of the Indexed Notes of all Tranches on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(a) (*Application of the Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Indexed Notes may be redeemed in these circumstances unless all the other Tranches of Indexed Notes linked to the same underlying Index are also redeemed at the same time. Before giving any such notice,

the Relevant Issuer shall provide to the Note Trustee a certificate signed by two directors of the Relevant Issuer (a) stating that the Relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Relevant Issuer so to redeem have occurred and (b) confirming that the Relevant Issuer will have sufficient funds on such Interest Payment Date to effect such redemption. The Note Trustee shall be entitled to rely on such certificate without liability to any person.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

Index Event means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(b)(ii) (*Delay in publication of Index*) and the Note Trustee has been notified by the Issuing and Paying Agent or Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Relevant Issuer and such circumstances are continuing.

- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

- (f) **Redemption at the Option of Noteholders:** If Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) (specified in the Final Terms) at its Optional Redemption Amount (specified in the Final Terms) together with interest accrued up to (and including) the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

(g) **Redemption at the Option of the Noteholders on a Restructuring Event**

- (i) If Restructuring Put Option is specified in the Final Terms (and for the avoidance of doubt, the Investor Put is also specified in the Final Terms), and:
- (a) if, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):
- (A) an independent financial adviser (as described below) shall have certified in writing to the Note Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or
- (B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Relevant Issuer at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(g)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Note Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) or the holder shall have given notice under Condition 6(f) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date..

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time,

with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(g)(i)(b) (B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(f) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(f) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(f) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.
- (iv) For the purposes of these Conditions:
 - (a) **Distribution Services Area** means, in respect of a Relevant Issuer, the area specified as such in the distribution licence granted to it on 1 October 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such

Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).

- (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.
- (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.
- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal), or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.
- (f) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of a Relevant Issuer having an initial maturity of five years or more which is rated by a Rating Agency.
- (g) **Restructuring Event** means the occurrence of any one or more of the following events:
 - (A) (i) the Secretary of State for Business, Innovation and Skills (or any successor) giving the Relevant Issuer written notice of any revocation of its Distribution Licence; or
 - (ii) the Relevant Issuer agreeing in writing with the Secretary of State for Business, Innovation and Skills (or any successor) to any revocation or surrender of its Distribution Licence; or
 - (iii) any legislation (whether primary or subordinate) being enacted which terminates or revokes the Distribution Licence of the Relevant Issuer;

except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Relevant Issuer or a wholly-owned subsidiary of the Relevant Issuer where such subsidiary at the time of such grant either executes in favour of the Note Trustee an unconditional and irrevocable guarantee in respect of all Notes issued by the Relevant Issuer in such form as the Note Trustee may approve or becomes the primary obligor under the Notes issued by the Relevant Issuer in accordance with Condition 13(c) (*Substitution*); or

- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which a Relevant Issuer is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Issuer have certified in good faith to the Note Trustee that the modified terms and conditions are not materially less favourable to the business of that Relevant Issuer;
- (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 (as amended by the Utilities Act 2000) (as this may be amended from time to time) unless two directors of such Relevant Issuer have certified in good faith to the Note Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of that Relevant Issuer.

(h) **Restructuring Period** means:

- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
- (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Relevant Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and

(cc) the date on which a Negative Certification shall have been given to the Note Trustee in respect of that Restructuring Event.

- (i) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*), does not announce or publicly confirm or inform the Relevant Issuer in writing at its request (which it shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade, was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Relevant Issuer undertakes to contact the relevant Rating Agency immediately following that reduction, or where applicable the refusal to assign a rating of at least investment grade, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Relevant Issuer shall notify the Note Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

- (h) **Purchases:** The Relevant Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Relevant Issuer or its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Relevant Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Relevant Issuer in respect of any such Notes shall be discharged.

7. Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specifies that the Notes are Index Linked Interest Notes and/or Index Linked Redemption Notes.

- (a) **Application of the Index Ratio**
-

Each payment of interest in respect of the Index Linked Interest Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

Each payment of principal in respect of the Index Linked Redemption Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

(b) Changes in Circumstances Affecting the Index

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "Index" and "Index Figure" in Condition 8 (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **relevant month**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Notes is due (the **date for payment**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as an Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty's Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser (and approved by the Note Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(b)(i) (*Change in base*)) before the date for payment.

(c) Application of Changes

Where the provisions of Condition 7(b)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month

in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(b)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Note is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(b)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(d) **Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) when any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Note Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Noteholders, the Note Trustee will give written notice of such occurrence to the Relevant Issuer, and the Relevant Issuer and the Note Trustee together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Relevant Issuer and the Note Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Relevant Issuer and the Note Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Note Trustee (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not

as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Relevant Issuer and the Note Trustee in connection with such appointment shall be borne by the Relevant Issuer.

- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Relevant Issuer and the Note Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Note Trustee and the Relevant Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Relevant Issuer, the other Secured Creditors, the Note Trustee and the Noteholders, and the Relevant Issuer shall give notice to the Noteholders in accordance with Condition 18 (*Notices*) of such amendments as promptly as practicable following such notification.

8. Definitions

In these Conditions:

Affiliate means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, **control** means control as defined in the Companies Act;

Base Index Figure means (subject to Condition 7(b)(i) (Change in base)) the base index figure as specified in the relevant Final Terms;

Calculation Date means any date when a payment of interest or, as the case may be, principal falls due;

Capital and Reserves means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Relevant Issuer; and
- (ii) the total of the capital, revaluation and revenue reserves of the Group (as defined below), including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to outside shareholders in Subsidiary Undertakings (as defined below) and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 2006, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Relevant Issuer since the date of that

balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

consolidated means in relation to the financial statements and accounts of the Relevant Issuer and/or the Group, those statements and accounts as consolidated under International Financial Reporting Standards, provided that if such consolidated accounts are not prepared, it shall mean the non-consolidated financial statements and accounts of the Relevant Issuer prepared in accordance with generally accepted accounting principles in the United Kingdom.

Distribution Licence means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989, as amended from time to time.

Group means the Relevant Issuer and, if and to the extent it has any, its Subsidiary Undertakings and "member of the Group" shall be construed accordingly.

Index or **Index Figure** means, in relation to any relevant month (as defined in Condition 7(b)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(b)(i) (Change in base), the UK Retail Price Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if "3 months lag" is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$IFA = RPI_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (RPI_{m-2} - RPI_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

IFA means the Index Figure applicable;

RPI_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Changes in Circumstances Affecting the Index*) and Condition 7(d) (*Cessation of or Fundamental Changes to the Index*) below, and if

"8 months lag" is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

9. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the

United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.

- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the Agency Agreement. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuers and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuers reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuers shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Indexed Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due

for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 11 (*Prescription*)).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or Indexed Notes, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as "**Additional Financial Centre(s)**" in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal

financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*)

or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such

indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or

- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
- (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or
- (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

- (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
- (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,

provided that in the case of paragraph (ii) the Note Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

- (ix) **Definitions:** in this Condition:

Excluded Subsidiary means any Subsidiary (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) of the Relevant Issuer:

- (A) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (B) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (B) (II). of the definition of Non-recourse Indebtedness below; and
- (C) which has been designated as such by the Relevant Issuer by written notice to the Note Trustee, provided that the Relevant Issuer may give written notice to the Note Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

Non-recourse Indebtedness means any indebtedness for borrowed money:

- (A) which is incurred by an Excluded Subsidiary; or
- (B) in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - I. recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; and/or

- II. recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over any such asset or assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

- III. recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

Principal Subsidiary at any time shall mean each Subsidiary of the Relevant Issuer (in each case not being an Excluded Subsidiary or any other Subsidiary of the Relevant Issuer, as the case may be, whose only indebtedness for borrowed money is Non-recourse Indebtedness):

- (A) whose (a) profits on ordinary activities before tax or (b) gross assets, in each case attributable to the Relevant Issuer represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries) and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such

financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors; or

- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Relevant Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (B), upon publication of its next audited financial statements (but without prejudice to the provisions of sub-paragraph (A) above) but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Relevant Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (A) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (B).

A certificate by two directors of the Relevant Issuer that, in their opinion, a Subsidiary of the Relevant Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Note Trustee without further enquiry or evidence and the Note Trustee will not be responsible or liable for any loss occasioned by acting on such a certificate and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties, whether or not addressed to each such party.

13. Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders of one or more Series of Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the affected Series of Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing one more than 50 per cent. in nominal amount of the affected Series of Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the affected Series of Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:
 - (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
 - (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;

- (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;
- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum;
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;
- (vi) to vary the currency or currencies of payment or denomination of the Notes;
- (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Relevant Issuer, whether or not those rights arise under the Trust Deed; or
- (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the affected Series of Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of affected Series of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of the Trust Deed:** The Note Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) if in the opinion of the Note Trustee the interests of the Noteholders will not be materially prejudiced thereby, to any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions, or determine that any Event of Default shall not be treated as such. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

- (c) **Substitution:** The Note Trustee may agree, subject to the execution of a deed or undertaking supplemental to the Trust Deed in form and manner satisfactory to the Note Trustee and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Relevant Issuer's successor in business in place of the Relevant Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Note Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Relevant Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.
- (e) **Modifications:** These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

14. Enforcement

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Events of Default*) where the Note Trustee has certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Relevant Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Relevant Issuer unless the Note Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Note Trustee

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuers and any entity related to the Issuers without accounting for any profit.

The Note Trustee may rely without liability on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuers, the Note Trustee and the Noteholders.

16. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Relevant Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Relevant Issuer on demand the amount payable by the Relevant Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Relevant Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

17. Further Issues

The Relevant Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects save for the Issue Date, Interest Commencement Date and Issue Price) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such different terms as the Relevant Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further issues may be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

18. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

19. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. **Governing Law and Jurisdiction**

- (a) **Governing Law:** The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (Proceedings) may be brought in such courts. The Issuers have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

**SCHEDULE 5
FORM OF COUPON**

On the front:

[ISSUER]

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

Coupon for [[set out amount due, if known]/the amount] due on [the Interest Payment Date falling in]*[•],[•].

[Coupon relating to Note in the nominal amount of [•]]**

This Coupon is payable to bearer (subject to the Conditions endorsed on the Note to which this Coupon relates, which shall be binding upon the holder of this Coupon whether or not it is for the time being attached to such Note) at the specified offices of the Issuing and Paying Agent and the Paying Agents set out on the reverse hereof (or any other Issuing and Paying Agent or further or other Paying Agents or specified offices duly appointed or nominated and notified to the Noteholders).

[If the Note to which this Coupon relates shall have become due and payable before the maturity date of this Coupon, this Coupon shall become void and no payment shall be made in respect of it.]***

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[ISSUER]

By:

[Cp. No.]

[Denomination]

[ISIN]

[Series]

[Certif. No.]

On the back:

ISSUING AND PAYING AGENT

[•]

PAYING AGENT[S]

[•]

[•]

[*Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention otherwise the particular interest Payment Date should be specified.]

[**Only required for Coupons relating to Floating Rate or Index Linked Interest Notes that are issued in more than one denomination.]

[***Delete if Coupons are not to become void upon early redemption of Note.]

**SCHEDULE 6
FORM OF TALON**

On the front:

[ISSUER]

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

Talon for further Coupons falling due on [the Interest Payment Dates falling in]*[][].

[Talon relating to Note in the nominal amount of [•]]**

After all the Coupons relating to the Note to which this Talon relates have matured, further Coupons (including if appropriate a Talon for further Coupons) shall be issued at the specified office of the Issuing and Paying Agent set out on the reverse hereof (or any other Issuing and Paying Agent or specified office duly appointed or nominated and notified to the Noteholders) upon production and surrender of this Talon.

If the Note to which this Talon relates shall have become due and payable before the original due date for exchange of this Talon, this Talon shall become void and no exchange shall be made in respect of it.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[ISSUER]

By:

[Talon No.]

[ISIN]

[Series]

[Certif. No.]

On the back:

ISSUING AND PAYING AGENT

[•]

[* The maturity dates of the relevant Coupons should be set out if known, otherwise reference should be made to the months and years in which the Interest Payment Dates fall due.]

[** Only required where the Series comprises Notes of more than one denomination.]

SCHEDULE 7
PROVISIONS FOR MEETINGS OF NOTEHOLDERS

Interpretation

1. In this Schedule:
 - (a) references to a meeting are to a meeting of Noteholders of one or more Series of Notes issued by the Relevant Issuer and include, unless the context otherwise requires, any adjournment;
 - (b) references to **Notes** and **Noteholders** are only to the Notes of the one or more Series in respect of which a meeting has been, or is to be, called, and to the holders of these Notes, respectively;
 - (c) **agent** means a holder of a voting certificate or a proxy for, or representative of, a Noteholder;
 - (d) **block voting instruction** means an instruction issued in accordance with paragraphs 8 to 14;
 - (e) **Extraordinary Resolution** means a resolution passed at a meeting duly convened and held in accordance with this Trust Deed by a majority of at least 75 per cent. of the votes cast;
 - (f) **proxy** has the meaning given to it in paragraph 9(f) below;
 - (g) **required proportion** means the proportion of the Notes shown by the table in paragraph 19 below;
 - (h) **voting certificate** means a certificate issued in accordance with paragraphs 5, 6, 7 and 14; and
 - (i) references to persons representing a proportion of the Notes are to Noteholders or agents holding or representing in the aggregate at least that proportion in nominal amount of the Notes for the time being outstanding.

Powers of meetings

2. A meeting shall, subject to the Conditions and without prejudice to any powers conferred on other persons by this Trust Deed, have power by Extraordinary Resolution:
 - (a) to approve proposals relating to reserved matters listed in Condition 13 (*Meetings of Noteholders, Modifications, Waiver and Substitution*);
 - (b) to sanction any proposal by the Relevant Issuer or the Note Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders and/or the Couponholders against the Relevant Issuer, whether or not those rights arise under this Trust Deed;
-

- (c) to assent to any modification of this Trust Deed, the Notes, the Talons or the Coupons proposed by the Relevant Issuer or the Note Trustee;
- (d) to authorise anyone (including the Note Trustee) to concur in and do anything necessary to carry out and give effect to an Extraordinary Resolution;
- (e) to give any authority, direction or sanction required to be given by Extraordinary Resolution;
- (f) to appoint any persons (whether Noteholders or not) as a committee or committees to represent the Noteholders' interests and to confer on them any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- (g) to approve a proposed new Note Trustee and to remove a Note Trustee;
- (h) (other than as permitted under Clause 15.2 of this Trust Deed) to approve the substitution of any entity for the Relevant Issuer (or any previous substitute) as principal debtor under this Trust Deed; and
- (i) to discharge or exonerate the Note Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed, the Notes, the Talons or the Coupons,

provided that the special quorum provisions in paragraph 19 shall apply to any Extraordinary Resolution (a "**special quorum resolution**") for the purpose of sub-paragraph 2(b) or 2(h), any of the proposals listed in Condition 13(a) (*Meetings of Noteholders*) or any amendment to this proviso.

Convening a meeting

3. The Relevant Issuer or the Note Trustee may at any time convene a meeting. If it receives a written request by Noteholders holding at least 10 per cent. in nominal amount of the Notes of any Series for the time being outstanding and is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses, the Note Trustee shall convene a meeting of the Noteholders of that Series. Every meeting shall be held on a date and at a time and place approved by the Note Trustee.
4. At least 21 days' notice (exclusive of the day on which the notice is given and of the day of the meeting) shall be given to the Noteholders and the Paying Agents in relation to the Bearer Notes and the Registrar in relation to the Registered Notes (with a copy to the Relevant Issuer). A copy of the notice shall be given by the party convening the meeting to the other parties. The notice shall specify the day, time and the place of meeting and, unless the Note Trustee otherwise agrees, the nature of the resolutions to be proposed and shall explain how Noteholders may appoint proxies or representatives, obtain voting certificates and use block voting instructions and the details of the time limits applicable.

Arrangements for voting

5. If a holder of a Bearer Note wishes to obtain a voting certificate in respect of it for a meeting, he must deposit it for that purpose at least 48 hours before the time fixed for the meeting with a Paying Agent or to the order of a Paying Agent with a bank or other depository nominated by the Paying Agent for the purpose. The Paying Agent shall then issue a voting certificate in respect of it.
6. A voting certificate shall:
 - (a) be a document in the English language
 - (b) be dated
 - (c) specify the meeting concerned and the serial numbers of the Notes deposited and
 - (d) entitle, and state that it entitles, its bearer to attend and vote at that meeting in respect of those Notes.
7. Once a Paying Agent has issued a voting certificate for a meeting in respect of a Note, it shall not release the Note until either:
 - (a) the meeting has been concluded or
 - (b) the voting certificate has been surrendered to the Paying Agent.
8. If a holder of a Bearer Note wishes the votes attributable to it to be included in a block voting instruction for a meeting, then, at least 48 hours before the time fixed for the meeting, (i) he must deposit the Note for that purpose with a Paying Agent or to the order of a Paying Agent with a bank or other depository nominated by the Paying Agent for the purpose and (ii) he or a duly authorised person on his behalf must direct the Paying Agent how those votes are to be cast. The Paying Agent shall issue a block voting instruction in respect of the votes attributable to all Notes so deposited.
9. A block voting instruction shall:
 - (a) be a document in the English language
 - (b) be dated
 - (c) specify the meeting concerned
 - (d) list the total number and serial numbers of the Notes deposited, distinguishing with regard to each resolution between those voting for and those voting against it
 - (e) certify that such list is in accordance with Notes deposited and directions received as provided in paragraphs 8, 11 and 14 and
 - (f) appoint a named person (a "**proxy**") to vote at that meeting in respect of those Notes and in accordance with that list.

A proxy need not be a Noteholder.

10. Once a Paying Agent has issued a block voting instruction for a meeting in respect of the votes attributable to any Notes:
 - (a) it shall not release the Notes, except as provided in paragraph 11, until the meeting has been concluded and
 - (b) the directions to which it gives effect may not be revoked or altered during the 48 hours before the time fixed for the meeting.
 11. If the receipt for a Note deposited with a Paying Agent in accordance with paragraph 8 is surrendered to the Paying Agent at least 48 hours before the time fixed for the meeting, the Paying Agent shall release the Note and exclude the votes attributable to it from the block voting instruction.
 12. Each block voting instruction shall be deposited at least 24 hours before the time fixed for the meeting at such place as the Note Trustee shall designate or approve, and in default it shall not be valid unless the chairman of the meeting decides otherwise before the meeting proceeds to business. If the Note Trustee requires, a notarially certified copy of each block voting instruction shall be produced by the proxy at the meeting but the Note Trustee need not investigate or be concerned with the validity of the proxy's appointment.
 13. A vote cast in accordance with a block voting instruction shall be valid even if it or any of the Noteholders' instructions pursuant to which it was executed has previously been revoked or amended, unless written intimation of such revocation or amendment is received from the relevant Paying Agent by the Relevant Issuer or the Note Trustee at its registered office or by the chairman of the meeting in each case at least 24 hours before the time fixed for the meeting.
 14. No Note may be deposited with or to the order of a Paying Agent at the same time for the purposes of both paragraph 5 and paragraph 8 for the same meeting.
 15.
 - (a) A holder of a Registered Note may, by an instrument in writing in the form available from the specified office of a Transfer Agent in the English language executed by or on behalf of the holder and delivered to the Transfer Agent at least 48 hours before the time fixed for a meeting, appoint any person (a proxy) to act on his behalf in connection with that meeting. A proxy need not be a Noteholder.
 - (b) A corporation which holds a Registered Note may by delivering to a Transfer Agent at least 24 hours before the time fixed for a meeting a certified copy of a resolution of its directors or other governing body (with, if it is not in English, a certified translation into English) authorise any person to act as its representative (a "**representative**") in connection with that meeting.
-

Chairman

16. The chairman of a meeting shall be such person as the Note Trustee may nominate in writing, but if no such nomination is made or if the person nominated is not present within 15 minutes after the time fixed for the meeting the Noteholders or agents present shall choose one of their number to be chairman, failing which the Relevant Issuer may appoint a chairman. The chairman need not be a Noteholder or agent. The chairman of an adjourned meeting need not be the same person as the chairman of the original meeting.

Attendance

17. The following may attend and speak at a meeting:
- (a) Noteholders and agents;
 - (b) the chairman;
 - (c) the Relevant Issuer and the Note Trustee (through their respective representatives) and their respective financial and legal advisers;
 - (d) the Dealers and their advisers;
 - (e) any other person approved by the meeting or the Note Trustee; and
 - (f) in relation to Registered Notes, the Registrar, or in relation to Bearer Notes, the Issuing and Paying Agent.

No-one else may attend or speak.

Quorum and Adjournment

18. No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time initially fixed for the meeting, it shall, if convened on the requisition of Noteholders or if the Relevant Issuer and the Note Trustee agree, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than 42 days later, and time and place as the chairman may decide. If a quorum is not present within 15 minutes from the time fixed for a meeting so adjourned, the meeting shall be dissolved.
19. Two (or in the case of an adjourned meeting one) or more Noteholders or agents present in person shall be a quorum *provided, however, that*, so long as at least the required proportion of the aggregate principal amount of the outstanding Notes is represented by, in the case of Bearer Notes, the Global Notes or, in the case of Registered Notes, the Global Certificates or a single Certificate, in the context of Registered Notes, an agent appointed in relation thereto or a Noteholder of the Notes represented thereby shall be deemed to be two voters (or in the case of an adjourned meeting, one voter) for the purpose of forming a quorum:
- (a) in the cases marked "No minimum proportion" in the table below, whatever the proportion of the Notes which they represent; and

- (b) in any other case, only if they represent, in nominal amount of the affected Series of Notes for the time being outstanding, the proportion of the Notes shown by the table below.

COLUMN 1	COLUMN 2	COLUMN 3
Purpose of meeting	Any meeting except one referred to in column 3 Required proportion	Meeting previously adjourned through want of a quorum Required proportion
To pass a special quorum resolution	75 per cent.	25 per cent.
To pass any other Extraordinary Resolution	One more than 50 per cent.	No minimum proportion
Any other purpose	One more than 10 per cent.	No minimum proportion

20. The chairman may with the consent of (and shall if directed by) a meeting adjourn the meeting from time to time and from place to place. Only business which could have been transacted at the original meeting may be transacted at a meeting adjourned in accordance with this paragraph or paragraph 18.
21. At least ten days' notice of a meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and that notice shall state the quorum required at the adjourned meeting. No notice need, however, otherwise be given of an adjourned meeting.

Voting

22. Each question submitted to a meeting shall be decided by a show of hands unless a poll is (before, or on the declaration of the result of, the show of hands) demanded by the chairman, the Relevant Issuer, the Note Trustee or one or more persons holding one or more Notes or voting certificates representing 2 per cent. of the Notes.
23. Unless a poll is demanded a declaration by the chairman that a resolution has or has not been passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes cast in favour of or against it.
24. If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.
25. A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.
26. On a show of hands every person who is present in person and who produces a Bearer Note, a Certificate of which he is the registered holder or a voting certificate or is a proxy or representative has one vote. On a poll every such person has one vote in respect of each integral currency unit of the Specified Currency of such Series of Notes so produced

or represented by the voting certificate so produced or for which he is a proxy or representative. Without prejudice to the obligations of proxies, a person entitled to more than one vote need not use them all or cast them all in the same way.

27. In case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to any other votes which he may have.

Effect and Publication of an Extraordinary Resolution

28. An Extraordinary Resolution shall be binding on all the Noteholders, whether or not present at the meeting, and on all the Couponholders and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Relevant Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders and, in relation to Bearer Notes, to the Paying Agents, and in relation to Registered Notes, to the Registrar within 14 days but failure to do so shall not invalidate the resolution.

Minutes

29. Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Unless and until the contrary is proved, every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

Written Resolutions

30. A written resolution signed by the holders of not less than 75 per cent., in nominal amount of the Notes outstanding shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Note Trustee's Power to Prescribe Regulations

31. Subject to all other provisions in this Trust Deed the Note Trustee may without the consent of the Noteholders prescribe such further regulations regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Note Trustee thinks reasonable to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so and as to the form of voting certificates or block voting instructions so as to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so.
32. The foregoing provisions of this Schedule shall have effect subject to the following provisions:
- (a) Meetings of Noteholders of separate Series will normally be held separately. However, the Note Trustee may from time to time determine that meetings of Noteholders of separate Series shall be held together

- (b) A resolution that in the opinion of the Note Trustee affects one Series alone shall be deemed to have been duly passed if passed at a separate meeting of the Noteholders of the Series concerned
- (c) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series but does not give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of the relevant Series provided that for the purposes of determining the votes a Noteholder is entitled to cast pursuant to paragraph 26, each Noteholder shall have one vote in respect of each £1,000 nominal amount of Notes held, converted, if such Notes are not denominated in sterling, in accordance with Subclause 11.16 (*Currency Conversion*)
- (d) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series and gives or may give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the Noteholders of the relevant Series
- (e) To all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and to Noteholders were references to the Notes and Noteholders of the Series concerned.

THIS DEED is delivered on the date stated at the beginning.

Signatories

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (EAST))
MIDLANDS) PLC

acting by)

and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(SOUTH WALES) PLC

acting by)

and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(SOUTH WEST) PLC

acting by)

and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(WEST MIDLANDS) PLC

acting by)

and) Director

Director/Secretary

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED

Signed as a deed by _____ as authorised signatory for HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED in the presence of:

Signature of witness

Name of witness

Address of witness

Occupation of witness

SUPPLEMENT DATED 15 MARCH 2018 TO THE PROSPECTUS DATED 15 SEPTEMBER 2017

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366923)*

and

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366985)*

and

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366894)*

and

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC*(incorporated and registered with limited liability in England and Wales under registration number 03600574)***£3,000,000,000****Euro Medium Term Note Programme**

This supplement (the **Supplement**) to the prospectus dated 15 September 2017 (the **Prospectus**) which comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the **FSMA**) and is prepared in connection with the £3,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC and WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC (the **Issuers**). Terms defined in the Prospectus have the same meaning when used in this Supplement. When used in this Supplement, Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the EEA.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer.

Each of the Issuers accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuers (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Purpose of the Supplement

The purpose of this Supplement is amend the following formula for the calculation of “Index Figure applicable” in Condition 8 of the Prospectus which has been the subject of a formatting error:

$$\text{IFA} = \text{RPI}_{m3+} \frac{(\text{Day of Calculation Date } 1)}{(\text{Days in month of Calculation Date})} (\text{RPI}_{m2} \text{ RPI}_{m3})$$

(the Erroneous Formula)

The Prospectus is hereby amended by replacing the Erroneous Formula with the following formula:

$$\text{IFA} = \text{RPI}_{m-3+} \frac{(\text{Day of Calculation Date } 1)}{(\text{Days in month of Calculation Date})} (\text{RPI}_{m-2} - \text{RPI}_{m-3})$$

General Information

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus since the publication of the Prospectus.

Conformed Copy

Dated 4 April 2011 (as amended and restated on 29 July 2014 and as amended on 13 March 2018)

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBNEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

£300,000,000 MULTICURRENCY REVOLVING FACILITY AGREEMENT

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated on 29 July 2014 and as amended on 13 March 2018).

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (registered number 03600574) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED , BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"Acceptable Bank" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"Acceptable Jurisdiction" means:

- (a) the United States of America;

- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"Act" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"Administrative Party" means an Arranger or the Facility Agent.

"Affiliate" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "Affiliate" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"Agent's Spot Rate of Exchange" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"Amendment Agreement" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"Ancillary Commencement Date" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"Ancillary Commitment" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"Ancillary Document" means each document relating to or evidencing the terms of an Ancillary Facility.

"Ancillary Facility" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Lender" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Outstandings" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary

Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"Break Costs" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"Business Day" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"Code" means the US Internal Revenue Code of 1986.

"Commitment" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"Confidential Information" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that

Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Designated Gross Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Designated Net Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);

- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"**Environmental Claim**" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"**Environmental Law**" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"**euro or euros or €**" means the single currency of the Participating Member States.

"**EURIBOR**" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"**Event of Default**" means an event specified as such in this Agreement.

"**Facility**" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"**Facility Office**" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"**FATCA**" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) any Ancillary Document;

- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"Finance Party" means a Lender, an Ancillary Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;

- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and

- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"**ITA**" means the Income Tax Act 2007.

"**Legal Reservations**" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"**Lender**" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"**LIBOR**" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"Licence" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, **provided that:**

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Material Subsidiary**" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;

- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

"Maturity Date" means the last day of the Term of a Loan.

"Multi-account Overdraft" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"Net Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"New Lender" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"Non-Consenting Lender" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"OFGEM" means the Office of Gas and Electricity Markets.

"Optional Currency" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"Original Financial Statements" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"Participating Member State" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"Party" means a party to this Agreement.

"Pensions Regulator" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"PPL" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

"Pre-approved Currency" means U.S.\$ and euro.

"Pro Rata Share" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"PUHCA" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"Qualifying Lender" has the meaning given to such term in Clause 14.1 (*Definitions*).

"Quasi-Security Interest" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"Quotation Day" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be

given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"Reference Bank Rate" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and

(d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"Screen Rate" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"Secretary of State" means the Secretary of State for Business, Innovation and Skills.

"Security Interest" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"Specified Time" means a time determined in accordance with Schedule 7 (*Timetables*).

"Sterling" and **"£"** mean the lawful currency of the United Kingdom.

"Subordination Deed" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"Subsidiary" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"TARGET2" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"TARGET Day" means any day on which TARGET2 is open for the settlement of payments in euro.

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"Tax Payment" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"Term" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"Total Commitments" means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

"Transfer Certificate" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"Transfer Date" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"U.K. " means the United Kingdom.

"Unpaid Sum" means any sum due and payable but unpaid by the Company under the Finance Documents.

"US" means the United States of America.

"U.S. Dollars" and **"U.S.\$"** means the lawful currency for the time being of the United States of America.

"VAT" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;

- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;

- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
 - (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
 - (p) a time of day is a reference to London time.
- 1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
-

1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:

- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
- (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
- (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.

1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:

- (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
- (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
- (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.

2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender

or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.

- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
 - (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. PURPOSE

3.1 Purpose

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 No obligation to monitor

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
 - (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
 - 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
 - (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.
-

4.4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:

- (a) the Drawdown Date is a Business Day falling within the Availability Period;
- (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
- (c) the proposed Term complies with this Agreement.

5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.

- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. EXTENSION OPTION

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
- (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or
 - (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.
- 6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).
- 6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two

years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

- 6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.
- 6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.
- 6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.
- 6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. OPTIONAL CURRENCIES

7.1 Selection

- 7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.
- 7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 Revocation of currency

- 7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:
 - (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
 - (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

- 7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.
- 7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

- 7.3.1 whether any limit under this Agreement has been exceeded;
 - 7.3.2 the amount of a Loan;
 - 7.3.3 the share of a Lender in a Loan;
 - 7.3.4 the amount of any repayment of a Loan; or
 - 7.3.5 the undrawn amount of a Lender's Commitment,
- is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

- 8.1.1 a multicurrency overdraft facility;
- 8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;
- 8.1.3 a short term multicurrency loan facility;
- 8.1.4 a derivatives facility;
- 8.1.5 a foreign exchange facility; or
- 8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 **Availability**

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
 - (a) a notice in writing of the establishment of an Ancillary Facility and specifying:

- (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
- (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

- (a) the Lender concerned will become an Ancillary Lender; and
- (b) the Ancillary Facility will be available,

with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
- (b) may only allow the Company to use the Ancillary Facility;
- (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
- (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and
- (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 **Repayment of Ancillary Facility**

8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.

8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.

8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:

- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,

would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 **Limitations on Ancillary Outstandings**

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

- (a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and
- (b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).

8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.

8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement

(including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

9.1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been

made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

10.2 Mandatory prepayment - change of control

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

10.2.3 if no such agreement is reached within the said period of 45 days then:

- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
- (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and

10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 Voluntary prepayment

10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.

10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.

10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 Voluntary cancellation

10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.

10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 Involuntary prepayment and cancellation

10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

10.6.2 After notification under sub-clause 10.6.1 above:

- (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.

10.6.4

- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
- 11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 Interest on overdue amounts

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. TERMS

12.1 Selection

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 Other adjustments

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 Notification

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. MARKET DISRUPTION

13.1 Failure of a Reference Bank to supply a rate

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 Market disruption

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it

(or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 **Alternative basis of interest or funding**

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. **TAX GROSS-UP AND INDEMNITIES**

14.1 **Definitions**

14.1.1 In this Agreement:

"Qualifying Lender" means:

- (a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
 - (i) a Lender:
 - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

- (ii) a Lender which is:

- (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
- (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"UK Non-Bank Lender" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

- 14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- 14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.
- 14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
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14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

(a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

(a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);

(b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion,

acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 **Lender Status Confirmation**

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 **HMRC DT Treaty Passport scheme confirmation**

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 **Stamp taxes**

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 **VAT**

- 14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).
- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of

that other Party's compliance with any other law, regulation, or exchange of information regime.

- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

- 14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or

- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;
- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;

- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
 - 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,
- as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

- 17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
 - (b) in the case of euro, in the principal financial centre of a Participating Member State or London,
- as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

- 17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 Impaired Agent

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;

- (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

- 18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 **No default**

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 **Authorisations**

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales, have been obtained or effected (as appropriate) and are in full force and effect.

18.8 **Financial statements**

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements..

18.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 **No misleading information**

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;

18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and

18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 **Pari Passu ranking**

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 **Licence**

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 **Sanctions**

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. INFORMATION COVENANTS

19.1 Financial statements

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;

19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;

19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;

19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;

19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);

19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);

19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;

19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;

19.4.9 promptly on request, a list of the then current Material Subsidiaries; and

19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 Use of websites

19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Company and the Facility Agent designate an electronic website for this purpose;
- (c) the Company notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or

- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;

- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that

time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**Regulatory Asset Base**" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 Interest cover

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 Asset Cover

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. GENERAL COVENANTS

21.1 General

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 Authorisations

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 Negative pledge

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the

Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;

- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;

- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and

- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of

a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 **Prohibition on Subsidiary Financial Indebtedness**

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 **Arm's length transactions**

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 **Pensions**

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).

21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.

21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

21.16.1 comply with the terms of the Licence in all material respects;

21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and

21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 Investment Grade Rating

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 Sanctions

21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 Anti-Corruption

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 **Breach of other obligations**

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 **Cross-default**

22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).

22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).

22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 Insolvency

22.5.1 Any of the following occurs in respect of the Company:

- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

22.6.1 Except as provided below, any of the following occurs in respect of the Company:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 Licence

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 Balancing and Settlement Code

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 Unlawfulness and invalidity

22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.

22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 Cessation of business

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 Repudiation and rescission of agreements

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

22.13 **Ownership of other Group companies**

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 **Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 **Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 Role of the Arrangers

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 Individual position of an Administrative Party

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 Reliance

The Facility Agent may:

23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;

23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;

23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and

23.5.4 act under the Finance Documents through its personnel and agents.

23.6 Majority Lenders' instructions

23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.

23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.

23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 Responsibility

23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it

may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,
- it must promptly notify the Lenders.

23.10 Information

- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial

condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or

- (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.

23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.

23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.

23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.

23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.

23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:

- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
- (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise

actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to

the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 Subordination Deed

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. EVIDENCE AND CALCULATIONS

24.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. FEES

25.1 Agency fee

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 Arrangement and participation fees

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 Co-ordination fee

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 Commitment fee

25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 Utilisation fee

25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans

for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.

25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 Interest, commission and fees on Ancillary Facilities

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. INDEMNITIES AND BREAK COSTS

26.1 Currency indemnity

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 Other indemnities

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last

day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 **Break Costs**

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

(a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. **EXPENSES**

27.1 **Initial costs**

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 **Subsequent costs**

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 **Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. AMENDMENTS AND WAIVERS

28.1 Procedure

- 28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*);
or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 Disenfranchisement of Defaulting Lenders

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request

for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;

- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 Excluded Commitments

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 Waivers and remedies cumulative

The rights of each Finance Party under the Finance Documents:

- 28.7.1 may be exercised as often as necessary;
- 28.7.2 are cumulative and not exclusive of its rights under the general law; and
- 28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. CHANGES TO THE PARTIES

29.1 Assignments and transfers by the Company

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 Assignments and transfers by Lenders

- 29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).
- 29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.
- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or

- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

- 29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- 29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

- 29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.
- 29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or

otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "**Term**" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- 30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- 30.2.2 to any person:
- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
 - (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
 - (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
 - (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);

- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;

30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. **CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS**

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

- 31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.
- 31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

- 32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- 32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

- 33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:
- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;
 - (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. SEVERABILITY

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. NOTICES

36.1 In writing

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

(a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

(b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westernpower.co.uk
Attention: Julie Hunt
The contact details of the Facility Agent for this purpose are:
Address: 2 King Edward Street, London EC1A 1HQ
Fax number: +44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 The Company

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 Communication when Facility Agent is Impaired Agent

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. LANGUAGE

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

SCHEDULE 3 REQUESTS

To: Bank of America Merrill Lynch International Limited as Facility Agent

From: Western Power Distribution (West Midlands) plc

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
6. We confirm that as at [relevant testing date] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (West Midlands) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

By:

The Transfer Date is confirmed by the Facility Agent as [•]

.

[•]

By:

[NEW LENDER]

By

:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: **Western Power Distribution (West Midlands) plc**

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].
6. [We confirm that no Default is outstanding as at [*relevant testing date*].] ¹.

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (West Midlands) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1[a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2[a Treaty Lender;]
 - 8.1.3[not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1a company resident in the United Kingdom for United Kingdom tax purposes; or
 - 9.1.2a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number []), and is tax resident in [] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

- 11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
- 12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
- 13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

SCHEDULE 8
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC (registered number 03600574) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [●], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any

commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in Schedule 8 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- 1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- 1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- 1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- 2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- 2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or
- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 Undertakings of the Subordinated Creditor

2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:

- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
- (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.

2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.

2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:

- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
- (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
- (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
- (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).

2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt

Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.

3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. **NEW MONEY**

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. **PROTECTION OF SUBORDINATION**

5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.

5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. **MISCELLANEOUS**

6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.

6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.

6.1.3 This Deed is a Finance Document.

7. **ASSIGNMENT**

7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. **TRUSTS**

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. **TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. **GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. **JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (West Midlands) plc as Company, [●] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Subordinated Creditor contact details:

Address:

Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [AGENT])
acting by)

Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details: _____

Address: _____

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (West Midlands) plc]

Date: [●]

Western Power Distribution (West Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC)
acting by) _____
Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Company contact details: _____

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by) _____
Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Subordinated Creditor contact details: _____

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [●])
acting by)

Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)
for and on behalf of)

WESTERN POWER DISTRIBUTION (WEST MIDLANDS))
PLC)

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0)1179 332 108

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED)

Address: King Edward Street
London EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
MIZUHO BANK, LTD.)
)

Address: Bracken House

Fax:

One Friday Street
London EC4M 9JA
+44 (0)207 012 4301

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:

THE ROYAL BANK OF SCOTLAND PLC

)
)
)
)

Address:

7th Floor, 135 Bishopsgate
London EC2M 3UR

Fax:

+44 (0)20 7085 8762

THE LEAD ARRANGER

Signed by:

ROYAL BANK OF CANADA

)
)
)

Attention:

Mike Atherton/ Mark Goodin (for credit matters)

Address:

Thames Court
One Queenhithe
London EC4V 4DE

Fax:

+44 (0)20 7029 7912

Attention:

David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar
NalappadamVeetil (for administration matters)

Address:

Riverbank House
2 Swan Lane
London EC4R 3BF

Fax:

+44 (0)20 7332 0036

THE LENDERS

Signed by:)
)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: 44 (0)845 602 7837

THE LENDERS

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED)

Address: King Edward Street
London, EC1A 1HQ

Fax: +44 (0)20 7995 2886

THE LENDERS

Signed by:)
)
BARCLAYS BANK PLC)
)

Address: 5 The North Colonnade
London E14 4BB

Fax: +44 (0)20 7773 1840

THE LENDERS

Signed by:)
)
CREDIT SUISSE AG, LONDON BRANCH)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE LENDERS

Signed by:)
)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE LENDERS

Signed by:)
)
LLOYDS BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE LENDERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

THE LENDERS

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar
NalappadamVeetil (for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

THE LENDERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

THE ISSUING BANK

Signed by:)
)
**BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED**)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE FACILITY AGENT

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
Fax: London EC4M 9JA
+44 (0)207 012 4053

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

West Midlands – C onformed Copy

Conformed Copy

Dated 4 April 2011 (as amended and restated on 29 July 2014 and as amended on 13 March 2018)

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBEEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

£300,000,000 MULTICURRENCY REVOLVING FACILITY
AGREEMENT

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated on 29 July 2014 and as amended on 13 March 2018).

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC** (registered number 02366923) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED , BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"Acceptable Bank" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"Acceptable Jurisdiction" means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's

Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means an Arranger or the Facility Agent.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"**Agent's Spot Rate of Exchange**" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"**Amendment Agreement**" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"**Ancillary Commencement Date**" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"**Ancillary Commitment**" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"**Ancillary Document**" means each document relating to or evidencing the terms of an Ancillary Facility.

"**Ancillary Facility**" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Lender**" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Outstandings**" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and

- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"Break Costs" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"Business Day" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"Code" means the US Internal Revenue Code of 1986.

"Commitment" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of

any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and

- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"Confidential Information" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit

institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"**Debt Purchase Transaction**" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"**Default**" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"**Defaulting Lender**" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"**Designated Gross Amount**" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"**Designated Net Amount**" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"**Disruption Event**" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"euro or euros or €" means the single currency of the Participating Member States.

"EURIBOR" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;

- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"Finance Party" means a Lender, an Ancillary Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;

- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:

- (A) administrative or technical error; or
- (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;

- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:

- (i) no Screen Rate is available for the currency of that Loan; or
- (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"Licence" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, **provided that:**

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Material Subsidiary**" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

"Maturity Date" means the last day of the Term of a Loan.

"Multi-account Overdraft" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"Net Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"New Lender" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"Non-Consenting Lender" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"OFGEM" means the Office of Gas and Electricity Markets.

"**Optional Currency**" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"**Original Financial Statements**" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"**Participating Member State**" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"**Party**" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**PPL**" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

"**Pre-approved Currency**" means U.S.\$ and euro.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to such term in Clause 14.1 (*Definitions*).

"**Quasi-Security Interest**" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"**Quotation Day**" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given

by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"Reference Bank Rate" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"Screen Rate" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"**Secretary of State**" means the Secretary of State for Business, Innovation and Skills.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Specified Time**" means a time determined in accordance with Schedule 7 (*Timetables*).

"**Sterling**" and "**£**" mean the lawful currency of the United Kingdom.

"**Subordination Deed**" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"**TARGET Day**" means any day on which TARGET2 is open for the settlement of payments in euro.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Deduction**" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"**Tax Payment**" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Company under the Finance Documents.

"**US**" means the United States of America.

"**U.S. Dollars**" and "**U.S.\$**" means the lawful currency for the time being of the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;

- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

- 1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
- 1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:
- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
 - (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
 - (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.
- 1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;

- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
 - (f) the Commitments of the other Lenders shall continue in full force and effect; and
 - (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.
- 2.2.2 An increase in the Total Commitments will only be effective on:
- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
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2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 **Nature of a Finance Party's rights and obligations**

Unless otherwise agreed by all the Finance Parties:

2.3.1 the obligations of a Finance Party under the Finance Documents are several;

2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;

2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;

2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;

2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and

2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:

- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
- (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.

4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:

- (a) whether or not the Lenders have granted their approval; and
- (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 Maximum number

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. UTILISATION

5.1 Giving of Requests

5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 Completion of Requests

5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:

- (a) the Drawdown Date is a Business Day falling within the Availability Period;
- (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
- (c) the proposed Term complies with this Agreement.

5.2.2 Only one Loan may be requested in a Request.

5.3 Currency and amount

5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available no later than 2.00 pm on the Drawdown Date through its Facility Office.
- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
 - (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. **EXTENSION OPTION**

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
 - (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

- (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.

6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).

6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.

6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.

6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.

6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.

7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 **Revocation of currency**

7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:

- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
- (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.

7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

7.3.1 whether any limit under this Agreement has been exceeded;

7.3.2 the amount of a Loan;

7.3.3 the share of a Lender in a Loan;

7.3.4 the amount of any repayment of a Loan; or

7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

8.1.1 a multicurrency overdraft facility;

8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

8.1.3 a short term multicurrency loan facility;

8.1.4 a derivatives facility;

8.1.5 a foreign exchange facility; or

8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.

8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:

- (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
- (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

- (a) the Lender concerned will become an Ancillary Lender; and
- (b) the Ancillary Facility will be available,

with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
- (b) may only allow the Company to use the Ancillary Facility;
- (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
- (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and

- (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.

8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.

8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:

- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,

would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 Limitations on Ancillary Outstandings

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

(a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and

(b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).

8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.

8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

9.1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

10.2 **Mandatory prepayment - change of control**

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

10.2.3 if no such agreement is reached within the said period of 45 days then:

- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
- (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and

10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 **Voluntary prepayment**

10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.

- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 **Automatic cancellation**

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 **Voluntary cancellation**

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 **Involuntary prepayment and cancellation**

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
 - (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.
- 10.6.4
 - (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
 - (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
 - (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.

10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.

10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.

10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.

10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

11.1.1 Margin; and

11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 Interest on overdue amounts

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. **TERMS**

12.1 **Selection**

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 **Market disruption**

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 **Alternative basis of interest or funding**

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more

than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. TAX GROSS-UP AND INDEMNITIES

14.1 Definitions

14.1.1 In this Agreement:

"Qualifying Lender" means:

- (a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
 - (i) a Lender:
 - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

and which is within the charge to the United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

- (ii) a Lender which is:
 - (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
- (iii) a Treaty Lender; or

- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"**UK Non-Bank Lender**" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company

on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or

- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.
- 14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- 14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 14.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).

- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- 14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,
- if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- 14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:
- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
 - (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.

14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

14.9 FATCA Information

14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:

- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and

- (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

- 14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;

- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or
- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or

(d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.

16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.

16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;

16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;

16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;

16.2.4 the occurrence of any market disruption event; or

16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

16.2.6 the Company shall have no right to replace the Facility Agent;

16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;

16.2.8 the transfer must take place no later than 14 days after the notice referred to above;

16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and

16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

17.1.1 in the principal financial centre of the country of the relevant currency; or

17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

(a) in the principal financial centre of the country of the relevant currency; or

(b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.

17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 Impaired Agent

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- 17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 **No default**

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 **Authorisations**

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

18.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements..

18.9 No material adverse change

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 Litigation

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 Winding Up

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 Non-Violation of other Agreements:

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 Governing Law and Enforcement

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 Deduction of Tax

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 No misleading information

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;

18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and

18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 Licence

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 Sanctions

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S.

Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti- Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

- 19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;
- 19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and
- 19.2.3 if such amendments are not so agreed within 25 days, the Company shall:
- (a) within 30 days after the end of that 25 day period; and
 - (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

- 19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;
- 19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);

- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 Use of websites

- 19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
 - (a) the Facility Agent and the Lender agree;
 - (b) the Company and the Facility Agent designate an electronic website for this purpose;
 - (c) the Company notifies the Facility Agent of the address of and password for the website; and
 - (d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

- 19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:
 - (a) any Lender not agreeing to receive information via the website; and
 - (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or

(f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(1) and (k) of Clause 21.5 (*Negative pledge*)).

"Consolidated EBITDA" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"Interest Payable" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"Measurement Period" means each period of twelve months ending on 31 March or 30 September.

"Regulatory Asset Base" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"Total Net Debt" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 **Interest cover**

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 **Asset Cover**

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. **GENERAL COVENANTS**

21.1 **General**

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 **Authorisations**

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 **Pari passu ranking**

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 **Negative pledge**

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the

Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;

- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);

- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 Prohibition on Subsidiary Financial Indebtedness

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 Arm's length transactions

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 Pensions

- 21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).
- 21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.
- 21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).
- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 Licence

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 Investment Grade Rating

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 Sanctions

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 **Anti-Corruption**

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 **Breach of other obligations**

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of

remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 Cross-default

- 22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.
- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 Insolvency

- 22.5.1 Any of the following occurs in respect of the Company:
 - (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
 - (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
 - (d) a moratorium is declared in respect of any of its indebtedness.
- 22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

- 22.6.1 Except as provided below, any of the following occurs in respect of the Company:
 - (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (b) any person presents a petition for its winding-up, administration or dissolution;
 - (c) an order for its winding-up, administration or dissolution is made;

- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 Licence

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 Balancing and Settlement Code

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 Unlawfulness and invalidity

22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.

22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 Cessation of business

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 Repudiation and rescission of agreements

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

22.13 Ownership of other Group companies

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 Material Adverse Effect

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 Acceleration

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

23. THE ADMINISTRATIVE PARTIES

23.1 Appointment and duties of the Facility Agent

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 Role of the Arrangers

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 Individual position of an Administrative Party

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and

- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 **Reliance**

The Facility Agent may:

- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.

23.6 **Majority Lenders' instructions**

- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 **Responsibility**

- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
 - (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.
- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
 - (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and

- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.

23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.

23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.

23.9.2 If the Facility Agent:

- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
- (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,

it must promptly notify the Lenders.

23.10 Information

23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.
- 23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
 - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.

23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 Subordination Deed

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. EVIDENCE AND CALCULATIONS

24.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. **FEES**

25.1 **Agency fee**

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 **Arrangement and participation fees**

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 **Co-ordination fee**

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 **Commitment fee**

25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 **Utilisation fee**

25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.

25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 **Currency indemnity**

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 **Other indemnities**

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 **Break Costs**

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. **EXPENSES**

27.1 **Initial costs**

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 **Subsequent costs**

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 **Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. **AMENDMENTS AND WAIVERS**

28.1 **Procedure**

28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 Disenfranchisement of Defaulting Lenders

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 Excluded Commitments

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant

percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.

29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.

29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:

- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or

- (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.

29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.

29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 Limitation of responsibility of Existing Lender

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or

- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*), then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the

Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and

29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:

- (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and

- (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "Term" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- 30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- 30.2.2 to any person:
 - (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
 - (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
 - (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other

regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;

- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;

30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential

nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.

31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:

- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

- (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and
- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. SEVERABILITY

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. NOTICES

36.1 In writing

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

(a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

(b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westernpower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: 2 King Edward Street, London EC1A 1HQ
Fax number: 44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 The Company

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 Communication when Facility Agent is Impaired Agent

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. LANGUAGE

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

**SCHEDULE 3
REQUESTS**

To: Bank of America Merrill Lynch International Limited as Facility Agent

From: Western Power Distribution (East Midlands) plc

Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
6. We confirm that as at [*relevant testing date*] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (East Midlands) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of

that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: **Western Power Distribution (East Midlands) plc**

Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].
6. [We confirm that no Default is outstanding as at [*relevant testing date*].]¹

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (East Midlands) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or
 - 9.1.2 a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or

(2)a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10.[The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11.This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.

12.This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.

13.This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

SCHEDULE 8
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC (registered number 02366923) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [●], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. INTERPRETATION

1.1 Definitions

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.

1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.

1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or

2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or

2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or

2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 Undertakings of the Subordinated Creditor

2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:

- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- 2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
- 2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any

bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further

advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.

5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.

6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.

6.1.3 This Deed is a Finance Document.

7. ASSIGNMENT

7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (East Midlands) plc as Company, [●] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**)
acting by) _____
Director

In the presence of:
Witness's Signature: _____
Name: _____
Address: _____
Company contact details:
Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by) _____
Director

In the presence of:
Witness's Signature: _____
Name: _____
Address: _____
Subordinated Creditor contact details:
Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED

)

by [AGENT]

)

acting by

)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address:

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (East Midlands) plc]

Date: [●]

Western Power Distribution (East Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC)
acting by) _____
Director

In the presence of:
Witness's Signature: _____
Name: _____
Address: _____
Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by) _____
Director

In the presence of:
Witness's Signature: _____
Name: _____
Address: _____
Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED

)

by [●]

)

acting by

)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address:

Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)
for and on behalf of)
WESTERN POWER)
DISTRIBUTION (EAST MIDLANDS) PLC)

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: 44 (0) 1179 332 108

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

East Midlands - C onformed Copy

THE LEAD ARRANGER

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

East Midlands - C onformed Copy

THE LENDERS

Signed by:)
)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))
)
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
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with a copy to Jim Inches/ David Navalón Vaquero

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THE LENDERS

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
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Fax: +44 (0)20 7995 2886

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THE LENDERS

Signed by:)
)
BARCLAYS BANK PLC)
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THE LENDERS

Signed by:)
)
CREDIT SUISSE AG, LONDON BRANCH)

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THE LENDERS

Signed by:)
LLOYDS BANK PLC)

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THE LENDERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
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THE LENDERS

Signed by:)
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THE LENDERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

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THE ISSUING BANK

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LIMITED

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THE FACILITY AGENT

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

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London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

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THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

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THE JOINT COORDINATORS

Signed by)
for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
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CLIFFORD

CLIFFORD CHANCE LLP

CHANCE

CONFORMED COPY

WESTERN POWER DISTRIBUTION PLC
AS THE BORROWER

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
AS MANDATED LEAD ARRANGERS

AND

MIZUHO BANK, LTD.
AS FACILITY AGENT

£130,000,000 TERM FACILITY AGREEMENT

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THIS AGREEMENT is dated 20 March 2018

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION PLC** (registered number 09223384) (the "**Borrower**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as mandated lead arrangers (whether acting individually or together the "**Arranger**");
- (3) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (4) **MIZUHO BANK, LTD.** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"**Acceptable Bank**" means a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investors Service Limited or a comparable rating from an internationally recognised credit rating agency.

"**Acceptable Jurisdiction**" means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of AA or higher by Standard & Poor's Rating Services or Aa2 or higher from Moody's Investors Service Limited or AA or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means the Arranger, or the Facility Agent.

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Applicable Accounting Principles**" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"**Assignment Agreement**" means an agreement substantially in the form set out in Schedule 5 (*Form of Assignment Agreement*) or any other form agreed between the relevant assignor and assignee.

"**Authority**" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"**Availability Period**" means, in respect of any Lender's Available Commitment, the period from and including the date of this Agreement to and including the date falling two weeks after the date of this Agreement.

"**Available Commitment**" means a Lender's Commitment minus:

- (a) the amount of its participation in any outstanding Loans; and
- (b) in relation to any proposed Loans, the amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date.

"**Available Facility**" means the aggregate for the time being of each Lender's Available Commitment.

"**Balancing and Settlement Code**" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"**Balancing and Settlement Code Framework Agreement**" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which a Distribution Company is a party and by which the Balancing and Settlement Code is made binding upon that Distribution Company.

"**Basel III**" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systemically important banks contained in "Global systemically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on

Banking Supervision in November 2011, as amended, supplemented or restated; and

- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"**Break Costs**" means the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or Unpaid Sum to the last day of the applicable Term for that Loan or Unpaid Sum if the principal or Unpaid Sum received had been paid on the last day of that Term;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank for a period starting on the Business Day following receipt or recovery and ending on the last day of the applicable Term.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in London.

"**Code**" means the US Internal Revenue Code of 1986.

"**Commitment**" means:

- (a) in relation to an Original Lender, the amount set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"**Compliance Certificate**" means a certificate substantially in the form of Schedule 6 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"**Confidential Information**" means all information relating to each of the Borrower and its Subsidiaries, PPL Corporation and any of its Subsidiaries which directly or indirectly holds shares in the Borrower and the directors, officers and employees of any of them (the "**Extended Group**"), the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Extended Group or any of its advisers; or

- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Extended Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes:

- (i) information that:
- (A) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 28 (*Confidentiality and disclosure of information*); or
 - (B) is identified in writing at the time of delivery as non-confidential by any member of the Extended Group or any of its advisers; or
 - (C) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality; and
- (ii) any Funding Rate.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Borrower and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA 2009" means the Corporation Tax Act 2009.

"CTA 2010" means the Corporation Tax Act 2010.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event or circumstance which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within five Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

- (i) from performing its payment obligations under the Finance Documents; or
- (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Distribution Certificate" means a distribution certificate substantially in the form of Schedule 11 (*Form of Distribution Certificate*).

"Distribution Companies" means Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc and Western Power Distribution (East Midlands) plc and any other distribution company which is licensed by Ofgem or any successor regulatory body as a distribution network operator and owned (whether directly or indirectly) by the Borrower from time to time.

"Drawdown Date" means each date on which a Loan is made.

"Eligible Institution" means any Lender or other bank, financial institution, trust, fund or other entity selected by the Borrower and which, in each case, is not a member of the Group.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"Event of Default" means an event or circumstance specified as such in this Agreement.

"Facility" means the term facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2019; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2019,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means any letter entered into by reference to the Facility between one or more Administrative Parties and the Borrower setting out the amount of certain fees referred to in the Agreement.

"Final Maturity Date" means the date falling nine months after the date of this Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) a Fee Letter;
- (c) a Transfer Certificate;
- (d) an Assignment Agreement;
- (e) a Request; or
- (f) any other document designated as such by the Facility Agent and the Borrower.

"Finance Party" means a Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) the amount of any liability in respect of any finance or capital lease which would, in accordance with the Applicable Accounting Principles, be treated as a balance sheet liability;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);
- (i) any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or

- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any individual rate notified by a Lender to the Facility Agent pursuant to paragraph (b) of sub-clause 10.3.1 of Clause 10.3 (*Cost of funds*).

"Group" means the Borrower and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within five Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 7 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or

- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets (other than, for so long as it is required by law or regulation not to be publicly disclosed, any such appointment which is to be made, or is made, by a person or entity described in paragraph (d) above);
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured

party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to any Loan, the rate rounded to the same number of decimal places as the two relevant Screen Rates which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time for Sterling.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Borrower is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 27 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"**LIBOR**" means, in relation to any Loan:

- (a) the applicable Screen Rate as of the Specified Time for Sterling and for a period equal in length to the Term of that Loan; or
- (b) as otherwise determined pursuant to Clause 10.1 (*Unavailability of Screen Rates*),

and if, in each case, that rate is less than zero, LIBOR shall be deemed to be zero.

"**Licence**" means:

- (a) each electricity distribution licence made and treated as granted to a Distribution Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 (or any equivalent legislation which supersedes the Utilities Act 2000) which permit a Distribution Company to distribute electricity in the area it is certified to operate in.

"**LMA**" means the Loan Market Association.

"**Loan**" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"**Majority Lenders**" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate 66 $\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate 66 $\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated 66 $\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"**Margin**" means, **provided that**:

- (a) at least one of Moody's Investors Service Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a rating (being an issuer rating with respect to the Borrower from Moody's and a long-term corporate credit rating with respect to the Borrower from Standard & Poor's) (the "**Ratings**"); and
- (b) no Event of Default is outstanding,

the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than or equal to Ba1	Less than or equal to BB+	2.00%
Baa3	BBB-	1.60%
Baa2	BBB	1.30%
Baa1	BBB+	1.10%
More than or equal to A3	More than or equal to A-	0.90%

If the current Moody's and Standard & Poor's Ratings imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a Rating, that Rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a Rating, or if an Event of Default is outstanding, the applicable Margin shall be 2.00% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's Rating is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Borrower or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

The Borrower shall notify the Facility Agent of any change to the Moody's or Standard & Poor's Rating pursuant to sub-clause 16.4.8.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Borrower to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Borrower to perform its payment obligations under the Finance Documents or its obligations under Clauses 17.3 (*Interest Cover*) or 17.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Measurement Date**" means the last day of a Measurement Period, being 31 March or 30 September.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**New Lender**" has the meaning given to that term in sub-clause 27.2.1 of Clause 27.2 (*Assignments and transfers by Lenders*).

"**OFGEM**" means the Office of Gas and Electricity Markets.

"**Original Financial Statements**" means the audited consolidated financial statements of the Borrower and each Distribution Company for the year ended 31 March 2017.

"**Participating Member State**" means any member state of the European Union that has the euro as its lawful currency in accordance with the legislation of the European Union relating to Economic and Monetary Union.

"**Party**" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**Permitted Acquisition**" means the acquisition by any member of the Group of an entity:

- (a) which carries out a Permitted Business;
- (b) which is incorporated or established in England or the European Union; and
- (c) in respect of which the Borrower has delivered to the Facility Agent, not later than three Business Days before the relevant member of the Group legally commits to make such acquisition, a certificate signed by two directors of the Borrower to which is attached a copy of the latest audited accounts (or if not available, management accounts) of the target entity giving calculations showing in reasonable detail that the Borrower would have remained in compliance with its obligations under Clause 17 (*Financial Covenants*) if the covenant tests had been recalculated for the most recently ended Measurement Period consolidating the financial statements of the target entity (consolidated if it has Subsidiaries) with the financial statements of the Group for such period on a pro forma basis and as if the consideration (including associated costs and expenses) for the proposed acquisition had been paid at the start of that Measurement Period.

"**Permitted Business**" means:

- (a) a business that:
 - (i) possesses characteristics similar to the regulated business of a distribution network operator, as carried out by any of the Distribution Companies (a "**DNO Business**");
 - (ii) provides facilities for and connected with a DNO Business;
 - (iii) is complementary or ancillary to the operation of a DNO Business or any other business already conducted by an entity within the Group;
 - (iv) provides services to any member of the Group which are currently provided by third parties; or
- (b) any other business approved or consented to by the Facility Agent.

"**Person**" has the meaning given to that term in Clause 15.20 (*Sanctions*).

"**PPL Corporation**" means PPL Corporation, a company incorporated in Pennsylvania, US, whose head office is at 2 N 9th Street, Allentown, PA18101, Pennsylvania, US, and whose registered number is 2570936.

"**PPL Group**" means PPL Corporation and any of its Subsidiaries.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Rate Fixing Day**" means, in relation to any period for which an interest rate is to be determined, the first day of that period, unless market practice differs in the Relevant Market, in which case the Rate Fixing Day will be determined by the Facility Agent in accordance with market practice in the Relevant Market (and if quotations would normally be given on more than one day, the Rate Fixing Day will be the last of those days).

"**Related Fund**" in relation to a fund (the "**first fund**"), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"**Relevant Market**" means the London interbank market.

"**Repeating Representations**" means the representations which are deemed to be repeated under this Agreement.

"**Representative**" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"**Request**" means a request for a Loan, substantially in the relevant form set out in Part I of Schedule 3 (*Requests*).

"**Sanctions**" has the meaning given to that term in Clause 15.20 (*Sanctions*).

"**Screen Rate**" means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for Sterling and for the relevant period displayed on page LIBOR01 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Borrower.

"**Secretary of State**" means the Secretary of State for Business, Energy and Industrial Strategy.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Selection Notice**" means a notice substantially in the form set out in Part II of Schedule 3 (*Requests*) given in accordance with Clause 9 (*Terms*)

"**Specified Time**" means a day or time determined in accordance with Schedule 8 (*Timetable*).

"**Subordination Deed**" means a document substantially in the form set out in Schedule 10 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Credit**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Tax Deduction**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Tax Payment**" means either the increase in a payment made by the Borrower to a Finance Party under Clause 11.2 (*Tax gross-up*) or a payment under Clause 11.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments, being £130,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Borrower.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Assignment Agreement or Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Assignment Agreement or Transfer Certificate.

"**Treaty Lender**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Borrower under the Finance Documents.

"**US**" means the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 17 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Regulatory Asset Value; and
- (f) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;

- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
 - (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
 - (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
 - (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
 - (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
 - (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
 - (j) a currency is a reference to the lawful currency for the time being of the relevant country;
 - (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
 - (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
-

- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended;
- (p) a "group of Lenders" includes all the Lenders; and
- (q) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding paragraph (a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

The above rules will only apply to the last month of any period.

1.2.4 Unless the contrary intention appears:

- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
- (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
- (c) any obligation of the Borrower under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Borrower is or may be outstanding under the Finance Documents.

1.2.5 The headings in this Agreement do not affect its interpretation.

1.2.6 The determination of the extent to which a rate is "**for a period equal in length**" to a Term shall disregard any inconsistency arising from the last day of that Term being determined pursuant to the terms of this Agreement.

1.3 **Third Party Rights**

1.3.1 Unless expressly provided to the contrary in a Finance Document, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 (the "**Third Parties Act**") to enforce or to enjoy the benefit of any term of this Agreement.

1.3.2 Notwithstanding any term of any Finance Document, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 **Currency symbols and definitions**

"£", "GBP" and "Sterling" denote the lawful currency of the United Kingdom.

2. **THE FACILITY**

2.1 **The Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrower a Sterling term facility in an aggregate amount which is equal to the Total Commitments.

2.2 **Increase**

2.2.1 The Borrower may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 7.6.3 of Clause 7.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with Clause 7.1 (*Mandatory prepayment – illegality*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in Sterling of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Eligible Institutions (each an "**Increase Lender**") which is acceptable to the Facility Agent (acting reasonably) each of which confirms in writing (whether in the relevant Increase Confirmation or otherwise) its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender in respect of those Commitments;
- (d) the Borrower and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Borrower and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender in respect of that part of the increased Commitments which it is to assume;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender in respect of that part of the increased Commitments which it is to assume;

- (f) the Commitments of the other Lenders shall continue in full force and effect; and
 - (g) any increase in the Total Commitments shall take effect on the date specified by the Borrower in the notice referred to above or any later date on which the Facility Agent executes an otherwise duly completed Increase Confirmation delivered to it by the relevant Increase Lender.
- 2.2.2 The Agent shall, subject to sub-clause 2.2.3 below, as soon as reasonably practicable after receipt by it of a duly completed Increase Confirmation appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Increase Confirmation.
- 2.2.3 The Agent shall only be obliged to execute an Increase Confirmation delivered to it by an Increase Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender.
- 2.2.4 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective in accordance with this Agreement and that it is bound by that decision to the same extent as it would have been had it been an Original Lender.
- 2.2.5 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Borrower shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Borrower shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.6 The Borrower may pay to the Increase Lender a fee in the amount and at the times agreed between the Borrower and the Increase Lender in a letter between the Borrower and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.7 Neither the Facility Agent nor any Lender shall have any obligation to find an Increase Lender and in no event shall any Lender whose Commitment is replaced by an Increase Lender be required to pay or surrender any of the fees received by such Lender pursuant to the Finance Documents.
- 2.2.8 Clause 27.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "Existing Lender" were references to all the Lenders immediately prior to the relevant increase;
-

- (b) the "New Lender" were references to that "Increase Lender"; and
- (c) a "re-transfer" and "re-assignment" were references to respectively a "**transfer**" and "**assignment**".

2.3 **Finance Party's rights and obligations**

- 2.3.1 The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- 2.3.2 The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower is a separate and independent debt in respect of which a Finance Party shall be entitled to enforce its rights in accordance with sub-clause 2.3.3 below. The rights of each Finance Party include any debt owing to that Finance Party under the Finance Documents and, for the avoidance of doubt, any part of a Loan or other amount owed by the Borrower which relates to a Finance Party's participation in the Facility or its role under a Finance Document (including any such amount payable to the Facility Agent on its behalf) is a debt owing to that Finance Party by the Borrower.
- 2.3.3 A Finance Party may, except as specifically provided in the Finance Documents, separately enforce its rights under or in connection with the Finance Documents.

3. **PURPOSE**

3.1 **Purpose**

The Borrower shall apply all amounts borrowed by it under the Facility towards its general corporate purposes.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

- 4.1.1 A Request may not be given until the Facility Agent has notified the Borrower and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Borrower and the Lenders upon being so satisfied.
- 4.1.2 Other than to the extent that the Majority Lenders notify the Facility Agent in writing to the contrary before the Facility Agent gives the notification described

in paragraph 4.1.1 above, the Lenders authorise (but do not require) the Facility Agent to give that notification. The Facility Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Default is outstanding or would result from the Loan.

4.3 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than two Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

5.1.1 The Borrower may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

A Request for a Loan will not be regarded as having been duly completed unless:

5.2.1 the Drawdown Date is a Business Day falling within the Availability Period;

5.2.2 the currency and amount of the proposed Loan comply with Clause 5.3 (*Currency and amount*); and

5.2.3 the proposed Term complies with this Agreement.

Only one Loan may be requested in a Request.

5.3 **Currency and amount**

5.3.1 The currency specified in a Request must be Sterling.

5.3.2 The amount of the proposed Loan must be a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility.

5.4 **Advance of Loan**

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

- 5.4.2 The amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.3 No Lender is obliged to participate in a Loan if as a result:
- (a) its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the aggregate amount of the Loans would exceed the Total Commitments.
- 5.4.4 If the conditions set out in this Agreement have been met, each Lender must make its share in the Loan available to the Facility Agent for the Borrower by no later than 2.00 pm on the Drawdown Date.
- 5.4.5 The Facility Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan in each case by the Specified Time.

6. REPAYMENT

6.1 Repayment of Loans

- 6.1.1 The Borrower must repay each Loan in full on the Final Maturity Date.
- 6.1.2 The Borrower may not re-borrow any part of the Facility which is repaid.

7. PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment - illegality

- 7.1.1 A Lender must notify the Borrower promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan or it becomes unlawful for any Affiliate of a Lender for that Lender to do so.
- 7.1.2 After notification under sub-clause 7.1.1 above:
- (a) the Borrower must repay or prepay the share of that Lender in each Loan made to it on the date specified in sub-clause 7.1.3 below; and
 - (b) the Available Commitment of that Lender will be immediately cancelled.
- 7.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:
- (a) the Business Day following receipt by the Borrower of notice from the Lender under sub-clause 7.1.1 above; or
 - (b) if later, the latest date allowed by the relevant law,
- and on such date that Lender's corresponding Commitment shall be cancelled in the amount of the participation repaid.

7.2 Mandatory prepayment - change of control

If, except to the extent of a group reorganisation where the Borrower continues to be controlled directly or indirectly by PPL Corporation, the Borrower becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Borrower (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 1122 of the CTA 2010) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 7.2.1 within five days of such date, the Borrower shall give notice of such change of control to the Facility Agent;
- 7.2.2 the Lenders and the Borrower shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 7.2.3 if no such agreement is reached within the said period of 45 days then:
 - (a) any Lender may on 10 days' notice to the Facility Agent and to the Borrower require the repayment of its share in each Loan and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days' notice to the Borrower require repayment in full of all outstanding Loans and cancel the Total Commitments; and
- 7.2.4 a Lender shall not be obliged to fund any further loans under the Facility during the negotiation period set out in sub-clause 7.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 7.2.3.

7.3 Voluntary prepayment

- 7.3.1 The Borrower may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 7.3.2 A prepayment of part of a Loan must be by an amount that reduces the amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 7.3.3 Any prepayment of a Loan pursuant to this Clause 7.3 shall be applied *pro rata* to each Lender's participation in that Loan.

7.4 Automatic cancellation

The Available Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

7.5 Voluntary cancellation

- 7.5.1 The Borrower may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 7.5.2 Partial cancellation of the Total Commitments must be by an amount that reduces the amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 7.5.3 Any cancellation in part shall be applied against the Commitment of each Lender *pro rata*.

7.6 Involuntary prepayment and cancellation

- 7.6.1 If the Borrower is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Borrower may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 7.6.2 After notification under sub-clause 7.6.1 above:
 - (a) the Available Commitments of that Lender will be immediately cancelled; and
 - (b) the Borrower shall repay or prepay that Lender's participation in each Loan made to it on the last day of the current Term for that Loan or, if earlier, the date specified by the Borrower in its notification and such Lender's Commitment shall be cancelled on the date of such repayment or prepayment.
- 7.6.3 If any Lender becomes a Defaulting Lender, the Borrower may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent five Business Days' notice of cancellation of the Available Commitment of that Lender.
- 7.6.4 On the notice referred to in sub-clause 7.6.3 above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- 7.6.5 The Facility Agent shall as soon as practicable after receipt of a notice referred to in sub-clause 7.6.3 above, notify all the Lenders.

7.7 No re-borrowing of Loans

The Borrower may not re-borrow any part of the Facility which is prepaid.

7.8 Miscellaneous provisions

- 7.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

- 7.8.2 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 7.8.3 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 7.8.4 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 7.8.5 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.
- 7.8.6 If all or part of any Lender's participation in a Loan is repaid or prepaid, an amount of that Lender's Commitment (equal to the amount of the participation which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment.

8. INTEREST

8.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 8.1.1 Margin; and
- 8.1.2 LIBOR.

8.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Borrower must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

8.3 Interest on overdue amounts

- 8.3.1 If the Borrower fails to pay any amount payable by it under the Finance Documents on its due date, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- 8.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan. For this purpose, the Facility Agent may (acting reasonably):
 - (a) select successive Terms of any duration of up to three months; and
 - (b) determine the appropriate Rate Fixing Day for that Term.

8.3.3 Notwithstanding sub-clause 8.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 8.3.2 above.

8.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

8.4 Notification of rates of interest

8.4.1 The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

8.4.2 The Facility Agent shall promptly notify the Borrower of each Funding Rate relating to a Loan.

9. TERMS

9.1 Selection

9.1.1 The Borrower may select the Term for a Loan in the relevant Request or (if the Loan has already been borrowed) in a Selection Notice.

9.1.2 Each Selection Notice for a Loan is irrevocable and must be delivered to the Facility Agent by the Borrower not later than the Specified Time.

9.1.3 If the Borrower fails to deliver a Selection Notice to the Facility Agent in accordance with sub-clause 9.1.2 above, the relevant Term will be one month.

9.1.4 Subject to this Clause, the Borrower may select a Term for each Loan of one, three or six months or any other period agreed between the Borrower and the Lenders in relation to the relevant Loan.

9.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan or (if already made) on the last day of its preceding Term.

9.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on such Final Maturity Date.

9.3 Other adjustments

- 9.3.1 The Facility Agent and the Borrower may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.
- 9.3.2 Subject to sub-clause 9.3.3 below, if two or more Terms in respect of Loans end on the same date, those Loans will, unless the Borrower specifies to the contrary in the Selection Notice for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 9.3.3 Subject to Clause 4.3 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Borrower requests in a Selection Notice that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the amounts specified in that Selection Notice, having an aggregate amount equal to the amount of the Loan immediately before its division.

9.4 **Notification**

The Facility Agent must notify the Borrower and the Lenders of the duration of each Term promptly after ascertaining its duration.

10. **CHANGES TO THE CALCULATION OF INTEREST**

10.1 **Unavailability of Screen Rate**

- 10.1.1 *Interpolated Screen Rate*: If no Screen Rate is available for LIBOR for the Term of a Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to the Term of that Loan.

Cost of funds: If no Screen Rate is available for LIBOR for Sterling or for the Term of a Loan and it is not possible to calculate the Interpolated Screen Rate, there shall be no LIBOR for that Loan and Clause 10.3 (*Cost of funds*) shall apply to that Loan for that Term.

10.2 **Market disruption**

If before close of business in London on the Rate Fixing Day for the relevant Term the Facility Agent receives notifications from a Lender or Lenders (whose participations in a Loan exceed 50 per cent. of that Loan) that the cost to it of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR then Clause 10.3 (*Cost of funds*) shall apply to that Loan for the relevant Term.

10.3 **Cost of funds**

- 10.3.1 If this Clause 10.3 applies, the rate of interest on each Lender's share of the relevant Loan for the relevant Term shall be the percentage rate per annum which is the sum of:
 - (a) the Margin; and
 - (b) the rate notified to the Facility Agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Term,

to be that which expresses as a percentage rate per annum the cost to the relevant Lender of funding its participation in that Loan from whatever source it may reasonably select.

10.3.2 If this Clause 10.3 applies and the Facility Agent or the Borrower so requires, the Facility Agent and the Borrower shall enter into negotiations (for a period of not more than thirty days) with a view to agreeing a substitute basis for determining the rate of interest.

10.3.3 Any alternative basis agreed pursuant to sub-clause 10.3.2 above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.3.4 If this Clause 10.30 applies pursuant to Clause 10.2 (*Market disruption*) and:

(a) a Lender's Funding Rate is less than LIBOR; or

(b) a Lender does not supply a quotation by the time specified in paragraph (b) of sub-clause 10.3.1 above,

the cost to that Lender of funding its participation in that Loan for that Term shall be deemed, for the purposes of paragraph (b) of sub-clause 10.3.1 above, to be LIBOR.

10.4 **Notification to Borrower**

If Clause 10.3 (*Cost of funds*) applies the Facility Agent shall, as soon as is practicable, notify the Borrower.

10.5 **Break Costs**

10.5.1 The Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of a Term for that Loan or Unpaid Sum.

10.5.2 Each Lender shall, as soon as reasonably practicable after a demand by the Facility Agent, provide a certificate confirming the amount of its Break Costs for any Term in which they accrue.

11. **TAX GROSS-UP AND INDEMNITIES**

11.1 **Definitions**

11.1.1 In this Agreement:

"**Qualifying Lender**" means:

(a) a Lender which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

- (A) which is a bank (as defined for the purpose of section 879 of the ITA) making an advance under a Finance Document and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance or would be within such charge as respects such payment apart from section 18A of the CTA 2009; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of the ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or
- (ii) a Lender which is:
- (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company; or
- (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of the ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Borrower and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"**UK Non-Bank Lender**" means a Lender which is not an Original Lender and which gives a Tax Confirmation in the documentation which it executes on becoming a Party as a Lender.

11.1.2 Unless a contrary indication appears, in this Clause 11 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

11.2 Tax gross-up

11.2.1 The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

11.2.2 The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Borrower.

11.2.3 If a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

11.2.4 A payment shall not be increased under sub-clause 11.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Borrower a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

- (i) the relevant Lender has not given a Tax Confirmation to the Borrower; and
- (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Borrower on the basis that the Tax Confirmation would have enabled the Borrower to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Borrower making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 11.2.7 below.

11.2.5 If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

11.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

11.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Borrower which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Borrower to obtain authorisation to make that payment without a Tax Deduction.
- (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.2. below or sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Borrower making that payment has not complied with its obligations under sub-clause 11.2.10 below or sub-clause 11.6.2 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*).

- 11.2.8 A UK Non-Bank Lender shall promptly notify the Borrower and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 11.2.9 A Treaty Lender which is an Original Lender and that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 11.2.10 Where a Lender includes the indication described in sub-clause 11.2.9 above in Schedule 1 (*Original Parties*), the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing **provided that** the Borrower shall not be liable in respect of any non-compliance with its obligations under this sub-clause 11.2.10 where such non-compliance is due to circumstances beyond the control of the Borrower (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Borrower, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 11.2.11 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with sub-clause 11.2.9 or sub-clause 11.6.1 of Clause 11.6. (*HMRC DT Treaty Passport scheme confirmation*) will reasonably promptly notify the Facility Agent and the Borrower if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 11.2.12 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.2.9 above or sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*), the Borrower shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

11.3 Tax indemnity

- 11.3.1 Except as provided below, the Borrower must indemnify a Finance Party, within three Business Days of demand, against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- 11.3.2 Sub-clause 11.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

(a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

11.3.3 Sub-clause 11.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

(a) is compensated for by an increased payment under Clause 11.2 (*Tax gross-up*);

(b) would have been compensated for by an increased payment under Clause 11.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 11.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

11.3.4 A Finance Party making, or intending to make, a claim under sub-clause 11.3.1 above must promptly notify the Borrower of the event which will give, or has given, rise to the claim.

11.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

11.4.1 a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and

11.4.2 that Finance Party has obtained and utilised that Tax Credit,

then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, the Finance Party shall pay an amount to the Borrower which that Finance Party determines will leave it (after that payment) in the same after Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.

11.5 Lender Status Confirmation

Each Lender which is not an Original Lender shall indicate, in the documentation which it executes on becoming a Party as a Lender, and for the benefit of the Facility Agent and without liability to the Borrower, which of the following categories it falls in:

11.5.1 not a Qualifying Lender;

11.5.2 a Qualifying Lender (other than a Treaty Lender); or

11.5.3 a Treaty Lender.

If such Lender fails to indicate its status in accordance with this Clause 11.5 then that Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Borrower). For the avoidance of doubt, the documentation which a Lender executes on becoming a Party as a Lender shall not be invalidated by any failure of a Lender to comply with this Clause 11.5.

11.6 HMRC DT Treaty Passport scheme confirmation

11.6.1 A Treaty Lender which is not an Original Lender and that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) in the documentation which it executes on becoming a Party as a Lender by including its scheme reference number and its jurisdiction of tax residence in that documentation.

11.6.2 Where a New Lender or Increase Lender includes the indication described in sub-clause 11.6.1 above in the relevant documentation which it executes on becoming a Party as a Lender, the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date or the date on which such increase takes effect and shall promptly provide the Lender with a copy of that filing.

11.7 Stamp taxes

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

11.8 VAT

11.8.1 All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply and, accordingly, subject to sub-clause 11.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).

11.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance

Document, and any Party other than the Recipient (the "**Relevant Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):

- (a) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this paragraph (a) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
- (b) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.

11.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

11.8.4 Any reference in this Clause 11.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

11.8.5 In relation to any supply made by a Finance Party to any Party under a Finance Document if reasonably requested by such Finance Party that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

11.9 **FATCA Information**

11.9.1 Subject to sub-clause 11.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:

- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party;

- (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA; and
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- 11.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 11.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 11.9.3 Sub-clause 11.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 11.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 11.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraphs (a) or (b) of sub-clause 11.9.1 above (including, for the avoidance of doubt, where sub-clause 11.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

11.10 FATCA Deduction

- 11.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 11.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Facility Agent and the Facility Agent shall notify the other Finance Parties.

12. INCREASED COSTS

12.1 Increased Costs

Except as provided below in this Clause, the Borrower must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 12.1.1 the introduction of, or any change in, or any change in the interpretation, administration or application of, any law or regulation;
- 12.1.2 compliance with any law or regulation made after the date of this Agreement;
- 12.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV to the extent such increased costs were not reasonably capable of being accurately calculated prior to the date of this Agreement; or
- 12.1.4 compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act or any law or regulation made under, or connected with, that Act.

12.2 Exceptions

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 12.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 12.2.2 attributable to a Tax Deduction required by law to be made by the Borrower;
- 12.2.3 compensated for by Clause 11.3 (*Tax indemnity*) (or would have been compensated for under Clause 11.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in sub-clause 11.3.2 or 11.3.3 of Clause 11.3 (*Tax indemnity*) applied);
- 12.2.4 attributable to a FATCA Deduction required to be made by a Party;
- 12.2.5 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation; or
- 12.2.6 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) ("**Basel II**") or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates).

12.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Borrower promptly of the circumstances giving rise to, and the amount of, the claim.

13. MITIGATION

13.1 Mitigation

13.1.1 Each Finance Party shall, in consultation with the Borrower (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:

- (a) any Tax Payment or Increased Cost being payable to that Finance Party;
- (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

13.1.2 A Finance Party is not obliged to take any step under this Clause 13 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

13.1.3 Each Finance Party must promptly notify the Borrower of any circumstances as described in paragraphs (a) to (d) of sub-clause 13.1.1 of this Clause 13.1.

13.1.4 The Borrower must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 13.1.

13.1.5 This Clause does not in any way limit the obligations of the Borrower under the Finance Documents.

13.2 Substitution

Notwithstanding Clause 13.1 (*Mitigation*), if any circumstances arise which result in:

- 13.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 13.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 13.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- 13.2.4 the occurrence of any market disruption event,

then the Borrower, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and

to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 27 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to an Eligible Institution (a "**Replacement Finance Party**") which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer in an amount equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 27.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that**:

- 13.2.5 the Borrower shall have paid to the Finance Party (or, if applicable, its Affiliate) all amounts accrued and owing to such Finance Party (or, if applicable, its Affiliate) hereunder;
- 13.2.6 the Borrower shall have no right to replace the Facility Agent;
- 13.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Borrower to find a Replacement Finance Party;
- 13.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 13.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 13.2.10 the Finance Party shall only be obligated to transfer its rights and obligations pursuant to this Clause 13.2 once it is satisfied that it has complied with all necessary "know your customer requirements" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

Notwithstanding the above, the Borrower shall not be entitled to require a novation under this Clause 13.2 with respect to any Finance Party if:

- 13.2.11 the relevant Finance Party shall have mitigated the effect of the relevant event or circumstance as provided in sub-clause 13.1.1 of Clause 131 (*Mitigation*), and the novation would have no greater or further mitigating effect; or
- 13.2.12 the relevant event or circumstances are applicable to all Finance Parties.

13.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 13.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

13.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

14. PAYMENTS

14.1 Place

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank in the principal financial centre of the country of that currency as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

14.2 Funds

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

14.3 Distribution

14.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank in the principal financial centre of the country of that currency, as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

14.3.2 The Facility Agent may apply any amount received by it for the Borrower in or towards payment (as soon as practicable after receipt) of any amount due from the Borrower under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

14.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party (or enter into or perform any related exchange contract) until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. Unless sub-clause 14.3.4 applies, if it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

14.3.4 If the Facility Agent has notified the Lenders that it is willing to make available amounts for the account of the Borrower before receiving funds from the Lenders then if and to the extent that the Facility Agent does so but it proves to be the case

that it does not then receive funds from a Lender in respect of a sum which it paid to the Borrower:

- (a) the Borrower shall on demand refund it to the Facility Agent; and
- (b) the Lender by whom those funds should have been made available or, if that Lender fails to do so, the Borrower shall on demand pay to the Facility Agent the amount (as certified by the Facility Agent) which will indemnify the Facility Agent against any funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

14.4 **Currency of account**

14.4.1 Subject to sub-clauses 14.4.2 and 14.4.3 below, Sterling is the currency of account and payment for any sum due from the Borrower under any Finance Document.

14.4.2 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

14.4.3 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

14.5 **No set-off or counterclaim**

All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim.

14.6 **Business Days**

14.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.

14.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

14.7 **Impaired Agent**

14.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Borrower or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 14.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Borrower or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.

- 14.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 14.7.3 A Party which has made a payment in accordance with this Clause 14.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 14.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 20.13 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 14.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 14.3 (*Distribution*).
- 14.7.5 For the purposes of this Clause 14.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

14.8 Partial payments

- 14.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:
- (a) **first**, in or towards payment *pro rata* of any unpaid amounts owing to the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment *pro rata* of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment *pro rata* of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.
- 14.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (b) to (d) of sub-clause 14.8.1 of this Clause 14.8.
- 14.8.3 This Clause will override any appropriation made by the Borrower.

14.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

15. REPRESENTATIONS

15.1 Representations

The representations set out in this Clause are made by the Borrower to each Finance Party.

15.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

15.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

15.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

15.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

15.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

15.5.2 its constitutional documents.

15.6 No default

15.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

15.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

15.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

15.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

15.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

15.8 **Financial statements**

Its and each of the Distribution Companies' audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

15.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

15.8.2 fairly present its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

15.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement, there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

15.10 **Litigation**

15.10.1 No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

15.10.2 No judgment or order of a court, arbitral body or agency which might reasonably be expected to have a Material Adverse Effect has (to the best of its knowledge and belief having made due and careful enquiry) been made against it or any of its Subsidiaries.

15.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

15.12 **Non-Violation of other Agreements**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

15.13 **Governing Law and Enforcement**

15.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

15.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

15.14 Deduction of Tax

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

15.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender; or

15.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

15.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

15.16 No misleading information

15.16.1 Any factual information provided by any member of the Group to any Finance Party in connection with the Facility was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

15.16.2 Nothing has occurred or been omitted from the information provided to any Finance Party in connection with the Facility and no information has been given or withheld that results in the information provided being untrue or misleading in any material respect.

15.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

15.18 Licence

Each Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of any Licence.

15.19 **Anti-corruption law**

Each member of the Group has conducted its businesses in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

15.20 **Sanctions**

No member of the Group or, to the knowledge of the Borrower, any director, officer employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the U.S. Department of State, the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of Sanctions. The Borrower represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or in any other country or territory, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

15.21 **Times for making representations**

15.21.1 The representations set out in this Clause are made by the Borrower on the date of this Agreement.

15.21.2 The representations in Clauses 15.2 to 15.9 (inclusive), 15.10, 15.12, and 15.13, are deemed to be repeated by the Borrower on the date of each Request and the first day of each Term.

15.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

16. **INFORMATION COVENANTS**

16.1 **Financial statements**

16.1.1 The Borrower must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its and each of the Distribution Companies' audited consolidated financial statements for each of their financial years; and

(b) its interim consolidated financial statements for the first half-year of each of its financial years.

16.1.2 All financial statements must be supplied as soon as they are available and:

(a) in the case of the Borrower's and each of the Distribution Companies' audited consolidated financial statements, within 180 days; and

(b) in the case of the Borrower's interim financial statements, within 90 days,
of the end of the relevant financial period.

16.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 16.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

16.2.1 the Borrower and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Borrower, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 17 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

16.2.2 if amendments are agreed by the Borrower and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

16.2.3 if such amendments are not so agreed within 25 days, the Borrower shall:

(a) within 30 days after the end of that 25 day period; and

(b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 16.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

16.3 Compliance Certificate

16.3.1 The Borrower must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

16.3.2 Each Compliance Certificate must be signed by two directors of the Borrower.

16.4 Information - miscellaneous

The Borrower must supply to the Facility Agent, in sufficient copies for all the Lenders:

- 16.4.1 copies of all documents despatched by the Borrower to its creditors generally (or any class of them) at the same time as they are despatched;
- 16.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 16.4.3 promptly upon becoming aware of them, the details of any judgment or order of a court, arbitral body or agency which is made against any member of the Group, and which might have a Material Adverse Effect;
- 16.4.4 promptly, details of the loss of any Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of any Licence;
- 16.4.5 promptly, details of any modification of an authorisation or other material regulatory notices received by any Distribution Company from OFGEM or any other government agency;
- 16.4.6 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which any Distribution Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 16.4.7 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 16.4.8 within five Business Days of receiving them, details of any change to the Rating by Moody's or Standard & Poor's;
- 16.4.9 the Borrower shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Borrower), actuarial reports in relation to all pension schemes mentioned in sub-clause 18.15.2 of Clause 18.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Borrower is at that time a participating employer and to those reports which have been provided to the Borrower; and
- 16.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

16.5 Notification of Default

- 16.5.1 The Borrower must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

16.5.2 Promptly on request by the Facility Agent, the Borrower must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

16.6 Use of websites

16.6.1 Except as provided below, the Borrower may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Borrower and the Facility Agent designate an electronic website for this purpose;
- (c) the Borrower notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Borrower and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

16.6.2 Notwithstanding the above, the Borrower must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

16.6.3 The Borrower must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Borrower must supply any information required under this Agreement in paper form.

16.7 Know your customer requirements

16.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Borrower (or a Holding Company of a Borrower) after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer requirements" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (c) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (c) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer requirements" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

17. FINANCIAL COVENANTS

17.1 Definitions

In this Clause:

"**Cash**" means, at any time, cash denominated in a currency of an Acceptable Jurisdiction in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under paragraph (b) of sub-clause 18.5.3 of Clause 18.5 (*Negative pledge*); and

- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) Sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited;
 - (ii) invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under paragraph (b) of sub-clause 18.5.3 of Clause 18.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the relevant currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Regulatory Asset Value**" means at any date, the regulatory asset value of the Distribution Companies for such date as last determined and notified by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset value and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

17.2 Interpretation

17.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

17.2.2 Any amount in a currency other than Sterling is to be taken into account at its Sterling equivalent calculated on the basis of:

- (a) the Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Borrower, the relevant rates of exchange used by the Borrower in, or in connection with, its financial statements for that period.

17.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

17.3 **Interest cover**

The Borrower must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

17.4 **Asset Cover**

The Borrower must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed:

17.4.1 for the purpose of the calculations referred to in the Distribution Certificate pursuant to Clause 18.17 (*Dividends and Distribution*), 85%; and

17.4.2 in all other respects, 87.5%,

in each case, of the Regulatory Asset Value.

17.5 **Calculation of Interest Payable**

For the purpose of the financial covenant set out in Clause 17.3 (*Interest cover*), in relation to any Measurement Period ending less than 12 months from the date of this Agreement, Interest Payable shall be calculated ignoring any amounts accrued before the date of this Agreement and in respect of the period after the date of this Agreement shall be increased by a factor of A/B where 'A' is 365 and 'B' is the total number of calendar days between the date of this Agreement and the last day of such Measurement Period.

18. **GENERAL COVENANTS**

18.1 **General**

The Borrower agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Distribution Company or each member of the Group, the Borrower must ensure that each Distribution Company or each of its Subsidiaries, as the case may be, performs that covenant.

18.2 **Authorisations**

The Borrower must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

18.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

18.4 **Pari passu ranking**

The Borrower must ensure that its payment obligations under the Finance Documents rank at least *pari passu* with all its other present and future unsecured and unsubordinated payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

18.5 **Negative pledge**

In this Clause 18.5, "**Quasi-Security**" means an arrangement or transaction described in sub-clause 18.5.2 below.

18.5.1 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may create or allow to exist any Security Interest or Quasi-Security on any of its assets.

18.5.2 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Borrower or any other member of the Group;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

18.5.3 Sub-clauses 5.5.1 and 18.5.2 do not apply to:

- (a) any Security Interest or Quasi-Security created over the assets of or any shares or other ownership interests in any entity which becomes a member of the Group after the date of this Agreement as a result of a Permitted Acquisition **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such acquisition;
- (b) any Security Interest or Quasi-Security created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;

- (c) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
 - (d) any Security Interest or Quasi-Security arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
 - (e) any Security Interest or Quasi-Security created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
 - (f) any Security Interest or Quasi-Security outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
 - (g) any Security Interest or Quasi-Security created or outstanding on or over any asset of any company which becomes a Subsidiary of the Borrower after the date of this Agreement where such Security Interest or Quasi-Security is created prior to the date on which such company becomes a Subsidiary of the Borrower and is not created or increased in contemplation of such company being acquired and/or becoming a Subsidiary of the Borrower and the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such company becoming a Subsidiary of the Borrower;
 - (h) any Security Interest or Quasi-Security created on any asset to secure any Financial Indebtedness incurred in connection with the financing of any asset or project in respect of which the repayment of that Financial Indebtedness is to be made from the revenues arising out of, or other proceeds of realisation from, that asset or project, with recourse to those revenues and proceeds and other assets used in connection with, or forming the subject matter of, that asset or project but without recourse (or with such limited recourse as the Majority Lenders may from time to time agree) to any other assets of the Group;
 - (i) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
 - (j) any Security Interest or Quasi-Security created or outstanding with the prior approval of the Majority Lenders; and
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- (k) any Security Interest or Quasi-Security created or outstanding on or over assets of:
 - (i) the Borrower provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £5,000,000 or its equivalent; and
 - (ii) a Distribution Company provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £20,000,000 or its equivalent for each Distribution Company.

18.6 Disposals

18.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash).

18.6.2 Sub-clause 18.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity;
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value (other than an exchange of a non-cash asset for cash), or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 6 months;
- (e) the disposal of assets by one wholly-owned Subsidiary of the Borrower to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Borrower by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, **provided that** the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains payable under this Agreement shall not exceed £100,000,000 or its equivalents;

- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account; and
- (h) any disposal of any assets (including shares) other than:
 - (i) any shares held in any Distribution Company or in any Holding Company of a Distribution Company; and
 - (ii) any assets of a Distribution Company,

for cash where the higher of the market value and net consideration receivable (when aggregated with the higher of the market value and net consideration receivable for any other sale, lease, licence, transfer or other disposal of any such assets which is not permitted under any other paragraph of this sub-clause 18.6.2) does not exceed 10% of the Regulatory Asset Value (as defined in Clause 17.1 (*Definitions*)) at the relevant time.

18.7 Environmental matters

18.7.1 The Borrower will and will ensure that each Distribution Company will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

18.7.2 The Borrower will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against it or any Distribution Company which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against it or any Distribution Company,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

18.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

18.9 Merger

The Borrower shall not enter into any amalgamation, demerger, merger, corporate reconstruction or reorganisation.

18.10 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower or the Group from that carried on at the date of this Agreement.

18.11 Acquisitions

18.11.1 Except as provided below neither the Borrower nor any other member of the Group may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

18.11.2 **Provided that** no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 18.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 18.6.2 of Clause 18.6 (*Disposals*) above;
- (b) any Permitted Acquisition; or
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

18.12 Prohibition on the Debt Purchase Transactions of the Group

The Borrower shall not, and shall procure that no other member of the Group shall, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

18.13 Prohibition on Subsidiary Financial Indebtedness

The Borrower shall procure that no member of the Group (other than the Borrower, any Distribution Company or any Subsidiary which is not a Holding Company of a Distribution Company) will incur or allow to remain outstanding any Financial Indebtedness (other than Financial Indebtedness owed to another member of the Group).

18.14 Arm's length transactions

The Borrower shall not (and shall ensure that no member of the Group shall) enter into any transactions with any other member of the PPL Group except on arm's length terms and for full market value (or on terms which are more favourable to the Group).

18.15 Pensions

18.15.1 The Borrower shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

18.15.2 Except in respect of WPD South Wales Plc for the Western Power Utilities Pension Scheme, the Infracore 92 Scheme and the WPD Group Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Borrower shall

ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

- 18.15.3 The Borrower shall promptly notify the Facility Agent of any material change in the rate of contributions payable or paid by it to any of the pension schemes mentioned in sub-clause 18.15.2 above (whether required by law or otherwise).
- 18.15.4 The Borrower shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 18.15.5 The Borrower shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

18.16 **Licence**

The Borrower will procure that each Distribution Company will at all times:

- 18.16.1 comply with the terms of its Licence in all material respects;
- 18.16.2 without prejudice to the generality of sub-clause 18.16.1 above, comply with the ring fencing provisions of its Licence in all respects; and
- 18.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of its Licence.

18.17 **Dividends and Distribution**

The Borrower (and any other member of the Group) will be permitted, at any time, to:

- (a) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
- (b) repay or distribute any dividend or share premium reserve;
- (c) pay or allow any member of the Group to pay any management, advisory or other fee to or to the order of any of the shareholders of the Borrower; or
- (d) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

provided that the Borrower, prior to any action referred to in paragraphs (a) to (d) above being taken, delivers to the Facility Agent a Distribution Certificate, signed by two directors of the Borrower, certifying that, taking into account any such payment, the Borrower will be in compliance with its obligations under Clause 17 (*Financial Covenants*) on each of the next two Measurement Dates.

18.18 Sanctions

- 18.18.1 The Borrower shall ensure that neither it nor any other member of the Group shall be the subject of any Sanctions, and that no member of the Group shall be located, organised or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.
- 18.18.2 The Borrower undertakes to ensure that no member of the Group will, directly or indirectly, use the proceeds of the Facility, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the Facility) of Sanctions.
- 18.18.3 The Borrower shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

18.19 Anti-corruption law

- 18.19.1 The Borrower shall not (and shall ensure that no other member of the Group will) directly or indirectly use the proceeds of the Facility for any purpose which would breach the Bribery Act 2010, the United States Foreign Corrupt Practices Act of 1977 or other similar legislation in other jurisdictions.
- 18.19.2 The Borrower shall (and shall ensure that each other member of the Group will):
- (a) conduct its business in compliance with applicable anti-corruption laws; and
 - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

19. DEFAULT

19.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

19.2 Non-payment

The Borrower fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- 19.2.1 administrative or technical error; or
- 19.2.2 a Disruption Event,

and payment is made within five Business Days of its due date.

19.3 Breach of other obligations

- 19.3.1 The Borrower does not perform or comply with its obligations under Clause 17 (*Financial Covenants*), Clause 18.5 (*Negative pledge*), Clause 18.6 (*Disposals*), Clause 18.11 (*Acquisitions*) or Clause 18.18 (*Sanctions*).
- 19.3.2 The representation and warranty by the Borrower in Clause 15.20 (*Sanctions*) is or proves to have been incorrect when made.
- 19.3.3 The Borrower does not perform or comply with any of its other obligations under any Finance Document (other than those referred to in Clause 19.2 (*Non-payment*) and in sub-clause 19.3.1 above) in any material respect or any representation or warranty by the Borrower in this Agreement (other than that referred to in sub-clause 19.3.2 above) or in any document delivered under this Agreement is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstance giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 15 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Borrower becoming aware of such non-compliance or misrepresentation, as the case may be.

19.4 Cross-default

- 19.4.1 Any Financial Indebtedness of the Borrower or any Distribution Company is not paid when due nor within any originally applicable grace period.
- 19.4.2 Any Financial Indebtedness of the Borrower or any Distribution Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 19.4.3 Any commitment for any Financial Indebtedness of the Borrower or any Distribution Company is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 19.4.4 Any creditor of the Borrower or any Distribution Company becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 19.4.5 No Event of Default will occur under this Clause 19.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 19.4.1 to 19.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

19.5 Insolvency

- 19.5.1 Any of the following occurs in respect of the Borrower:

- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

19.5.2 If a moratorium occurs in respect of the Borrower, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

19.6 Insolvency proceedings

19.6.1 Except as provided below, any of the following occurs in respect of the Borrower:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

19.6.2 Sub-clause 19.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

19.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Borrower's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Borrower and is not discharged or stayed within 30 days.

19.8 **Licence**

Either:

19.8.1 notice is given to revoke or terminate any Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

19.8.2 any Licence is revoked,

in either case, other than in circumstances which permit the Borrower or the relevant Distribution Company to carry on the distribution business of the relevant Distribution Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the relevant Licence, issued under the Act or pursuant to the Utilities Act, 2000.

19.9 **Balancing and Settlement Code**

19.9.1 Any Distribution Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where that Distribution Company is able to carry on its distribution business.

19.9.2 Any Distribution Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

19.10 **Unlawfulness and invalidity**

19.10.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents in any material respect.

19.10.2 Any obligation or obligations of the Borrower under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

19.11 **Cessation of business**

The Borrower or any Distribution Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 18.6 (*Disposals*).

19.12 **Repudiation and rescission of agreements**

The Borrower (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

19.13 **Ownership of the Distribution Companies**

The Borrower ceases to own (directly or indirectly) 100% of the shares in any Distribution Company.

19.14 **Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

19.15 **Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Borrower:

19.15.1 cancel the Total Commitments; and/or

19.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders.

Any notice given under this Clause will take effect in accordance with its terms.

20. **ROLE OF THE FACILITY AGENT AND THE ARRANGER**

20.1 **Appointment of the Facility Agent**

20.1.1 Each of the Arranger and the Lenders appoints the Facility Agent to act as its agent under and in connection with the Finance Documents.

20.1.2 Each of the Arranger and the Lenders authorises the Facility Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Facility Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

20.2 **Instructions**

20.2.1 The Facility Agent shall:

- (a) unless a contrary indication appears in a Finance Document, exercise or refrain from exercising any right, power, authority or discretion vested in it as Facility Agent in accordance with any instructions given to it by:

- (i) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (ii) in all other cases, the Majority Lenders; and
 - (b) not be liable for any act (or omission) if it acts (or refrains from acting) in accordance with paragraph (a) above.
- 20.2.2 The Facility Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates the matter is a decision for any other Lender or group of Lenders, from that Lender or group of Lenders) as to whether, and in what manner, it should exercise or refrain from exercising any right, power, authority or discretion. The Facility Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.
- 20.2.3 Save in the case of decisions stipulated to be a matter for any other Lender or group of Lenders under the relevant Finance Document and unless a contrary indication appears in a Finance Document, any instructions given to the Facility Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
- 20.2.4 The Facility Agent may refrain from acting in accordance with any instructions of any Lender or group of Lenders until it has received any indemnification and/or security that it may in its discretion require (which may be greater in extent than that contained in the Finance Documents and which may include payment in advance) for any cost, loss or liability which it may incur in complying with those instructions.
- 20.2.5 In the absence of instructions, the Facility Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
- 20.2.6 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

20.3 Duties of the Facility Agent

- 20.3.1 The Facility Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
 - 20.3.2 Subject to sub-clause 20.3.3 below, the Facility Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Facility Agent for that Party by any other Party.
 - 20.3.3 Without prejudice to Clause 27.7 (*Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to the Borrower*), sub-clause 20.3.2 above shall not apply to any Transfer Certificate, Assignment Agreement or Increase Confirmation.
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- 20.3.4 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 20.3.5 If the Facility Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- 20.3.6 If the Facility Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Facility Agent or the Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- 20.3.7 The Facility Agent shall have only those duties, obligations and responsibilities expressly specified in the Finance Documents to which it is expressed to be a party (and no others shall be implied).

20.4 Role of the Arranger

Except as specifically provided in the Finance Documents, the Arranger has no obligation of any kind to any other Party under or in connection with any Finance Document.

20.5 No fiduciary duties

- 20.5.1 Nothing in any Finance Document constitutes the Facility Agent or the Arranger as a trustee or fiduciary of any other person.
- 20.5.2 Neither the Facility Agent nor the Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

20.6 Business with the Group

The Facility Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

20.7 Rights and discretions

- 20.7.1 The Facility Agent may:
- (a) rely on any representation, communication, notice or document believed by it to be genuine, correct and appropriately authorised;
 - (b) assume that:
 - (i) any instructions received by it from the Majority Lenders, any Lenders or any group of Lenders are duly given in accordance with the terms of the Finance Documents; and
 - (ii) unless it has received notice of revocation, that those instructions have not been revoked; and

- (c) rely on a certificate from any person:
 - (i) as to any matter of fact or circumstance which might reasonably be expected to be within the knowledge of that person; or
 - (ii) to the effect that such person approves of any particular dealing, transaction, step, action or thing, as sufficient evidence that that is the case and, in the case of paragraph (i) above, may assume the truth and accuracy of that certificate.
 - 20.7.2 The Facility Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
 - (a) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 19.2 (*Non-payment*)); and
 - (b) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised.
 - 20.7.3 The Facility Agent may engage and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
 - 20.7.4 Without prejudice to the generality of sub-clause 20.7.3 above or sub-clause 20.7.5 below, the Facility Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Facility Agent (and so separate from any lawyers instructed by the Lenders) if the Facility Agent in its reasonable opinion deems this to be necessary.
 - 20.7.5 The Facility Agent may rely on the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts (whether obtained by the Facility Agent or by any other Party) and shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of its so relying.
 - 20.7.6 The Facility Agent may act in relation to the Finance Documents through its officers, employees and agents.
 - 20.7.7 Unless a Finance Document expressly provides otherwise the Facility Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
 - 20.7.8 Notwithstanding any other provision of any Finance Document to the contrary, neither the Facility Agent nor the Arranger is obliged to do or omit to do anything if it would, or might in its reasonable opinion, constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.
 - 20.7.9 Notwithstanding any provision of any Finance Document to the contrary, the Facility Agent is not obliged to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties, obligations or responsibilities
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or the exercise of any right, power, authority or discretion if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

20.8 Responsibility for documentation

Neither the Facility Agent nor the Arranger is responsible or liable for:

- 20.8.1 the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Facility Agent, the Arranger, the Borrower or any other person in or in connection with any Finance Document or the transactions contemplated in the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- 20.8.2 the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- 20.8.3 any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by applicable law or regulation relating to insider dealing or otherwise.

20.9 No duty to monitor

The Facility Agent shall not be bound to enquire:

- 20.9.1 whether or not any Default has occurred;
- 20.9.2 as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- 20.9.3 whether any other event specified in any Finance Document has occurred.

20.10 Exclusion of liability

20.10.1 Without limiting sub-clause 20.10.2 below (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Facility Agent), the Facility Agent will not be liable for:

- (a) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct;
- (b) exercising, or not exercising, any right, power, authority or discretion given to it by, or in connection with, any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Finance Document, other than by reason of its gross negligence or wilful misconduct; or

(c) without prejudice to the generality of paragraphs (a) and (b) above, any damages, costs or losses to any person, any diminution in value or any liability whatsoever (but not including any claim based on the fraud of the Facility Agent) arising as a result of:

(i) any act, event or circumstance not reasonably within its control; or

(ii) the general risks of investment in, or the holding of assets in, any jurisdiction,

including (in each case and without limitation) such damages, costs, losses, diminution in value or liability arising as a result of: nationalisation, expropriation or other governmental actions; any regulation, currency restriction, devaluation or fluctuation; market conditions affecting the execution or settlement of transactions or the value of assets (including any Disruption Event); breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; natural disasters or acts of God; war, terrorism, insurrection or revolution; or strikes or industrial action.

20.10.2 No Party (other than the Facility Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Facility Agent may rely on this Clause subject to Clause 1.3 (*Third party rights*) and the provisions of the Third Parties Act.

20.10.3 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.

20.10.4 Nothing in this Agreement shall oblige the Facility Agent or the Arranger to carry out:

(a) any "know your customer requirements" or other checks in relation to any person; or

(b) any check on the extent to which any transaction contemplated by this Agreement might be unlawful for any Lender or for any Affiliate of any Lender,

on behalf of any Lender and each Lender confirms to the Facility Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Facility Agent or the Arranger.

20.10.5 Without prejudice to any provision of any Finance Document excluding or limiting the Facility Agent's liability, any liability of the Facility Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been suffered (as determined by reference to the date of default of the Facility Agent or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Facility Agent at any time which increase the amount of that loss. In no event shall the Facility Agent be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not the Facility Agent has been advised of the possibility of such loss or damages.

20.11 Lenders' indemnity to the Facility Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Facility Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Facility Agent (otherwise than by reason of the Facility Agent's gross negligence or wilful misconduct), in acting as Facility Agent under the Finance Documents (unless the Facility Agent has been reimbursed by the Borrower pursuant to a Finance Document).

20.12 Resignation of the Facility Agent

20.12.1 The Facility Agent may resign and appoint one of its Affiliates acting through an office in the United Kingdom as successor by giving notice to the Lenders and the Borrower.

20.12.2 Alternatively the Facility Agent may resign by giving 30 days' notice to the Lenders and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Facility Agent.

20.12.3 If the Majority Lenders have not appointed a successor Facility Agent in accordance with sub-clause 20.12.2 above within 20 days after notice of resignation was given, the retiring Facility Agent (after consultation with the Borrower) may appoint a successor Facility Agent (acting through an office in the United Kingdom).

20.12.4 If the Facility Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Facility Agent is entitled to appoint a successor Facility Agent under sub-clause 20.12.3 above, the Facility Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Facility Agent to become a party to this Agreement as Facility Agent) agree with the proposed successor Facility Agent amendments to this Clause 20 and any other term of this Agreement dealing with the rights or obligations of the Facility Agent consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Facility Agent's normal fee rates and those amendments will bind the Parties.

- 20.12.5 The retiring Facility Agent shall, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 20.12.6 The Facility Agent's resignation notice shall only take effect upon the appointment of a successor.
- 20.12.7 Upon the appointment of a successor, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under sub-clause 20.12.5 above) but shall remain entitled to the benefit of Clause 24.2.3 (*Indemnity to the Facility Agent*) and this Clause 20 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date). Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- 20.12.8 The Facility Agent shall resign in accordance with sub-clause 20.12.2 above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Facility Agent pursuant to sub-clause 20.12.3 above) if on or after the date which is three months before the earliest FATCA Application Date relating to any payment to the Facility Agent under the Finance Documents, either:
- (a) the Facility Agent fails to respond to a request under Clause 11.9 (*FATCA Information*) and the Borrower or a Lender reasonably believes that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
 - (b) the information supplied by the Facility Agent pursuant to Clause 11.9 (*FATCA Information*) indicates that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or
 - (c) the Facility Agent notifies the Borrower and the Lenders that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
- and (in each case) the Borrower or a Lender reasonably believes that a Party will be required to make a FATCA Deduction that would not be required if the Facility Agent were a FATCA Exempt Party, and the Borrower or that Lender, by notice to the Facility Agent, requires it to resign.

20.13 Replacement of the Facility Agent

- 20.13.1 After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).

- 20.13.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 20.13.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 20.13 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).
- 20.13.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

20.14 Confidentiality

- 20.14.1 In acting as agent for the Finance Parties, the Facility Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- 20.14.2 If information is received by another division or department of the Facility Agent, it may be treated as confidential to that division or department and the Facility Agent shall not be deemed to have notice of it.

20.15 Relationship with the Lenders

- 20.15.1 The Facility Agent may treat the person shown in its records as Lender at the opening of business (in the place of the Facility Agent's principal office as notified to the Finance Parties from time to time) as the Lender acting through its Facility Office:
- (a) entitled to or liable for any payment due under any Finance Document on that day; and
 - (b) entitled to receive and act upon any notice, request, document or communication or make any decision or determination under any Finance Document made or delivered on that day,
- unless it has received not less than five Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- 20.15.2 Any Lender may by notice to the Facility Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 34.4 (*Electronic communication*))

electronic mail address and/or any other information required to enable the transmission of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address (or such other information), department and officer by that Lender for the purposes of Clause 34.2 (*Contact Details*) and paragraph (b) of sub-clause 34.4.1 and the Facility Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Lender.

20.16 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Facility Agent and the Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- 20.16.1 the financial condition, status and nature of each member of the Group;
- 20.16.2 the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- 20.16.3 whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- 20.16.4 the adequacy, accuracy or completeness of any information provided by the Facility Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

20.17 Facility Agent's management time

Any amount payable to the Facility Agent under Clause 24.2.3 (*Indemnity to the Facility Agent*), Clause 25 (*Expenses*) and Clause 20.11 (*Lenders' indemnity to the Facility Agent*) shall include the cost of utilising the Facility Agent's management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the Borrower and the Lenders, and is in addition to any fee paid or payable to the Facility Agent under Clause 23 (*Fees*).

20.18 Deduction from amounts payable by the Facility Agent

If any Party owes an amount to the Facility Agent under the Finance Documents the Facility Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Facility Agent would otherwise be obliged to

make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

21. CONDUCT OF BUSINESS BY THE FINANCE PARTIES

No provision of this Agreement will:

- 21.1.1 interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- 21.1.2 oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- 21.1.3 oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

22. EVIDENCE AND CALCULATIONS

22.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are *prima facie* evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

22.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

22.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 365 days or otherwise, depending on what the Facility Agent determines is market practice.

23. FEES

23.1 Agency fee

The Borrower must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Borrower.

23.2 Upfront fees

The Borrower must pay the upfront fees in the manner agreed between the relevant Administrative Parties and the Borrower.

23.3 Commitment fee

- 23.3.1 The Borrower must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 23.3.2 The commitment fee is payable quarterly in arrear during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 23.3.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

24. OTHER INDEMNITIES

24.1 Currency indemnity

- 24.1.1 The Borrower must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:
- (a) that Finance Party receiving an amount in respect of the Borrower's liability under the Finance Documents; or
 - (b) that liability being converted into a claim, proof, judgment or order,
- in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.
- 24.1.2 Unless otherwise required by law, the Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

24.2 Other indemnities

The Borrower shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

- 24.2.1 the occurrence of any Event of Default;
- 24.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or
- 24.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Borrower otherwise than on the Final Maturity Date or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

24.3 Indemnity to the Facility Agent

The Borrower shall promptly indemnify the Facility Agent against any cost, loss or liability incurred by the Facility Agent (acting reasonably) as a result of:

24.3.1 investigating any event which it reasonably believes is a Default;

24.3.2 acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or

24.3.3 instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

25. **EXPENSES**

25.1 **Initial costs**

The Borrower must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

25.2 **Subsequent costs**

The Borrower must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

25.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Assignment Agreement) executed after the date of this Agreement; and

25.2.2 any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement.

25.3 **Enforcement costs**

The Borrower must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

26. **AMENDMENTS AND WAIVERS**

26.1 **Procedure**

26.1.1 Except as provided in this Clause 26, any term of the Finance Documents may be amended or waived with the agreement of the Borrower and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

26.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 26.1.1 above. Any such amendment or waiver is binding on all the Parties.

26.1.3 Sub-clause 27.9.3 (*Pro rata interest settlement*) shall apply to this Clause 26.

26.2 Exceptions

26.2.1 An amendment or waiver that has the effect of changing or which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (d) an increase in a Commitment or the Total Commitments, an extension of the Availability Period or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) a term of a Finance Document which expressly requires the consent of each Lender;
- (f) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (g) Clause 7.1 (*Mandatory prepayment – illegality*), Clause 7.2 (*Mandatory prepayment – change of control*), sub-clause 7.3.3 of Clause 7.3 (*Voluntary prepayment*) or Clause 31 (*Pro rata sharing*);
- (h) Clause 15.20 (*Sanctions*) or 18.18 (*Sanctions*); or
- (i) this Clause 26 (*Amendments and Waivers*), Clause 36 (*Governing law*) or Clause 37 (*Enforcement*),

may only be made with the consent of all the Lenders.

26.3 Other exceptions

An amendment or waiver which relates to the rights or obligations of the Facility Agent or the Arranger (each in their capacity as such) may not be effected without the consent of the Facility Agent or the Arranger, as the case may be.

26.4 Disenfranchisement of Defaulting Lenders

26.4.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitment.

26.4.2 For the purposes of this Clause 26.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

26.5 Replacement of a Defaulting Lender

26.5.1 The Borrower may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender, replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 27 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to an Eligible Institution (a "**Replacement Lender**") which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 27.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

26.5.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Borrower shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Borrower to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 26.5.1 above; and
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents.

26.6 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Borrower) determines is necessary to reflect the change.

26.7 Waivers and remedies cumulative

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver of any such right or remedy or constitute an election to affirm any of the Finance Documents. No election to affirm any Finance Document on the part of any Finance Party shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

27. CHANGES TO THE PARTIES

27.1 Assignments and transfers by the Borrower

The Borrower may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

27.2 Assignments and transfers by Lenders

27.2.1 A Lender (the "**Existing Lender**") may, subject to the following provisions of this Clause 27, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the "**New Lender**").

27.2.2 Unless the Borrower and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

27.2.3 An Existing Lender must consult with the Borrower for no more than five Business Days before it may make an assignment or transfer unless:

- (a) the New Lender is another Lender or an Affiliate of a Lender; or
- (b) an Event of Default has occurred and is outstanding.

27.2.4 The Facility Agent is not obliged to execute a Transfer Certificate or Assignment Agreement until it has completed all "know your customer requirements" to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.

- 27.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 27; or
 - (b) the New Lender confirms to the Facility Agent and the Borrower in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are transferred to, or assigned to and assumed by, the New Lender.
- 27.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 27.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

27.3 Procedure for transfer by way of novations

- 27.3.1 A novation is effected if:
- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
 - (b) the Facility Agent executes it.

Subject to sub-clause 27.2.4 of Clause 27.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

- 27.3.2 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.
- 27.3.3 Subject to Clause 27.9 (*Pro rata interest settlement*), on the Transfer Date:
- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
 - (b) the Existing Lender will be released from those obligations and cease to have those rights.

27.4 Procedure for assignment

- 27.4.1 Subject to the conditions set out in Clause 27.2 (*Assignment and transfers by Lenders*), an assignment may be effected in accordance with sub-clause 27.4.2 below when the Facility Agent executes an otherwise duly completed Assignment

Agreement delivered to it by the Existing Lender and the New Lender. The Facility Agent shall, subject to sub-clause 27.2.4, as soon as reasonably practicable after receipt by it of a duly completed Assignment Agreement appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Assignment Agreement.

27.4.2 Subject to Clause 27.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the Existing Lender will assign absolutely to the New Lender the rights under the Finance Documents expressed to be the subject of the assignment in the Assignment Agreement;
- (b) the Existing Lender will be released by the Borrower and the other Finance Parties from the obligations owed by it (the "**Relevant Obligations**") and expressed to be the subject of the release in the Assignment Agreement; and
- (c) the New Lender shall become a Party as a "Lender" and will be bound by obligations equivalent to the Relevant Obligations.

27.4.3 Lenders may utilise procedures other than those set out in this Clause 27.4 to assign their rights under the Finance Documents (but not, without the consent of the Borrower or unless in accordance with Clause 27.4 (*Procedure for transfer by way of novation*), to obtain a release by the Borrower from the obligations owed to the Borrower by the Lenders nor the assumption of equivalent obligations by a New Lender) provided that they comply with the conditions set out in Clause 27.2 (*Assignments and transfers by Lenders*).

27.5 Limitation of responsibility of Existing Lender

27.5.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

27.5.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and

- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

27.5.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under any Finance Document or otherwise.

27.6 Costs resulting from change of Lender or Facility Office

27.6.1 If:

- (a) a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- (b) as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 11 (*Tax gross-up and indemnities*) or Clause 12 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

27.6.2 This Clause 27.6 shall not apply in relation to Clause 11.2 (*Tax gross-up*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Borrower making the payment has not complied with its obligations under sub-clause 11.6.2 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*).

27.7 Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to Borrower

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, Assignment Agreement or an Increase Confirmation, send to the Borrower a copy of that Transfer Certificate, Assignment Agreement or Increase Confirmation.

27.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 27, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

27.8.1 any charge, assignment or other security to secure obligations to a federal reserve, central bank, governmental authority, agency or department (including Her Majesty's Treasury); and

27.8.2 any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or security shall:

- (a) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (b) require any payments to be made by the Borrower or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

27.9 Pro rata interest settlement

27.9.1 If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 27.3 (*Procedure for transfer by way of novations*) or any assignment pursuant to Clause 27.4 (*Procedure for assignment*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- (a) any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- (b) the rights transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 27.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

27.9.2 In this Clause 27.9 references to "Term" shall be construed to include a reference to any other period for accrual of fees.

27.9.3 An Existing Lender which retains the right to the Accrued Amounts pursuant to this Clause 27.9 but which does not have a Commitment shall be deemed not to be a Lender for the purposes of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve any request for a consent, waiver, amendment or other vote of Lenders under the Finance Documents.

27.10 Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons

27.10.1 For so long as a Holding Company of the Borrower or any of such Holding Company's Affiliates other than a member of the Group (a "**Relevant Person**") (i) beneficially owns a Commitment or (ii) has entered into a sub-participation agreement relating to a Commitment or other agreement or arrangement having a substantially similar economic effect and such agreement or arrangement has not been terminated:

- (a) in ascertaining the Majority Lenders or whether any given percentage (including for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents such Commitment shall be deemed to be zero; and
- (b) for the purposes of Clause 26.2 (*Exceptions*), such Relevant Person or the person with whom it has entered into such sub-participation, other agreement or arrangement shall be deemed not to be a Lender (unless in the case of a person not being a Relevant Person it is a Lender by a virtue otherwise than by beneficially owning the relevant Commitment).

27.10.2 Each Lender shall, unless such Debt Purchase Transaction is an assignment or transfer, promptly notify the Facility Agent in writing if it knowingly enters into a Debt Purchase Transaction with a Relevant Person (a "**Notifiable Debt Purchase Transaction**"), such notification to be substantially in the form set out in Part I of Schedule 9 (*Forms of Notifiable Debt Purchase Transaction Notice*).

27.10.3 A Lender shall promptly notify the Facility Agent if a Notifiable Debt Purchase Transaction to which it is a party:

- (a) is terminated; or
- (b) ceases to be with a Relevant Person,

such notification to be substantially in the form set out in Part II of the Schedule 9 (*Forms of Notifiable Debt Purchase Transaction Notice*).

27.10.4 Each Relevant Person that is a Lender agrees that:

- (a) in relation to any meeting or conference call to which all the Lenders are invited to attend or participate, it shall not attend or participate in the same if so requested by the Facility Agent or, unless the Facility Agent otherwise agrees, be entitled to receive the agenda or any minutes of the same; and

- (b) in its capacity as Lender, unless the Facility Agent otherwise agrees, it shall not be entitled to receive any report or other document prepared at the request of, or on the instructions of, the Facility Agent or one or more of the Lenders.

28. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

28.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 28.2 (*Disclosure of Confidential Information*) and Clause 28.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

28.2 Disclosure of Confidential Information

Any Finance Party may disclose:

28.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 28.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

28.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent, and in each case to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Borrower and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom paragraphs (a) or (b) of sub-clause 28.2.2 above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;

- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraphs (a) or (b) of sub-clause 28.2.2 above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 27.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Borrower;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to paragraphs (a), (b) and (c) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to paragraph (d) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to paragraphs (e), (f) and (g) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

28.2.3 to any person appointed by that Finance Party or by a person to whom paragraph (a) or (b) of sub-clause 28.2.2 above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance

Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 28.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the relevant Finance Party; and

- 28.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Borrower if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

28.3 Disclosure to numbering service providers

28.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Borrower the following information:

- (a) name of the Borrower;
- (b) country of domicile of the Borrower;
- (c) place of incorporation of the Borrower;
- (d) date of this Agreement;
- (e) Clause 37 (*Governing Law*);
- (f) the names of the Facility Agent and the Arranger;
- (g) date of each amendment and restatement of this Agreement;
- (h) amount of Total Commitments;
- (i) currency of the Facility;
- (j) type of the Facility;
- (k) ranking of Facility;
- (l) Final Maturity Date for the Facility;
- (m) changes to any of the information previously supplied pursuant to paragraphs (a) to (l) above; and
- (n) such other information agreed between such Finance Party and the Borrower,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

28.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Borrower by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

28.3.3 The Borrower represents that none of the information set out in paragraphs (a) to (n) of sub-clause 28.3.1 above is, nor will at any time be, unpublished price-sensitive information.

28.3.4 The Facility Agent shall notify the Borrower and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Borrower; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Borrower by such numbering service provider.

29. CONFIDENTIALITY OF FUNDING RATES

29.1 Confidentiality and disclosure

29.1.1 The Facility Agent and the Borrower agree to keep each Funding Rate confidential and not to disclose it to anyone, save to the extent permitted by sub-clauses 29.1.2 and 29.1.3 below.

29.1.2 The Facility Agent may disclose:

- (a) any Funding Rate to the Borrower pursuant to Clause 8.4 (*Notification of rates of interest*); and
- (b) any Funding Rate to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Facility Agent and the relevant Lender.

29.1.3 The Facility Agent and the Borrower may disclose any Funding Rate to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives if any person to whom that Funding Rate is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so

inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or is otherwise bound by requirements of confidentiality in relation to it;

- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the Borrower it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the Borrower it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender.

29.2 Related obligations

29.2.1 The Facility Agent and the Borrower acknowledge that each Funding Rate is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and the Borrower undertake not to use any Funding Rate for any unlawful purpose.

29.2.2 The Facility Agent and the Borrower agree (to the extent permitted by law and regulation) to inform the relevant Lender:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 29.1.3 except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 29.

29.3 No Event of Default

No Event of Default will occur under Clause 19.3 (*Breach of other obligations*) by reason only of the Borrower's failure to comply with this Clause 29.

30. SET-OFF

A Finance Party may set off any matured obligation owed to it by the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

31. PRO RATA SHARING

31.1 Payments to Finance Parties

If a Finance Party (a "**Recovering Finance Party**") receives or recovers any amount from the Borrower other than in accordance with Clause 14 (*Payments*) (a "**Recovery**") and applies that amount to a payment due under the Finance Documents then:

31.1.1 the Recovering Finance Party must, within three Business Days, supply details of the Recovery to the Facility Agent;

31.1.2 the Facility Agent must calculate whether the receipt or recovery is in excess of the amount which the Recovering Finance Party would have received if the receipt or recovery had been received or made by the Facility Agent and distributed in accordance with Clause 14 (*Payments*), without taking account of any Tax which would have been imposed on the Facility Agent in relation to the receipt, recovery or redistribution; and

31.1.3 the Recovering Finance Party shall, within three Business Days of demand by the Facility Agent, pay to the Facility Agent an amount (the "**Redistribution**") equal to such receipt or recovery less any amount which the Facility Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 14.8 (*Partial payments*).

31.2 Redistribution of payments

The Facility Agent shall treat the Redistribution as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) (the "**Sharing Finance Parties**") in accordance with Clause 14.8 (*Partial payments*) towards the obligations of the Borrower to the Sharing Finance Parties.

31.3 Recovering Finance Party's rights

On a distribution by the Facility Agent under Clause 31.2 (*Redistribution of payments*) of a payment received by a Recovering Finance Party from the Borrower, as between the Borrower and the Recovering Finance Party, an amount of the Recovery equal to the Redistribution will be treated as not having been paid by the Borrower.

31.4 Reversal of Redistribution

If any part of the Redistribution received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

31.4.1 each Sharing Finance Party shall, upon request of the Facility Agent, pay to the Facility Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Redistribution (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Redistribution which that Recovering Finance Party is required to pay) (the "**Redistributed Amount**"); and

31.4.2 as between the Borrower and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by the Borrower.

31.5 **Exceptions**

31.5.1 This Clause 31 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Borrower.

31.5.2 A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the Recovering Finance Party notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

32. **SEVERABILITY**

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

32.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

32.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

33. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

34. **NOTICES**

34.1 **In writing**

34.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given in person, by post or (in respect of any Party other than the Borrower) by fax.

34.1.2 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

34.2 Contact details

34.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

34.2.2 The contact details of the Borrower for this purpose are:

Address: Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Tel: 44 117 933 2374
E-mail: wpdtreasuryconfirms@westernpower.co.uk
Attention: Treasury Team

The contact details of the Facility Agent for this purpose are:

Address: Mizuho Bank, Ltd.
30 Old Bailey
London
EC4M 7AU

Tel: +44 (0) 207 012 4703
Fax number: +44 (0) 203 147 4118
E-mail: loanagency@mhcb.co.uk
Attention: Agency Department

34.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

34.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

34.3 Effectiveness

34.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and

(c) if by fax, when received in legible form.

34.3.2 A communication given under sub-clause 34.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

34.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

34.4 Electronic communication

34.4.1 Any communication to be made between any two Parties under or in connection with the Finance Documents may be made by electronic mail or other electronic means (including, without limitation, by way of posting to a secure website) if those two Parties:

- (a) notify each other in writing of their electronic mail address and/or any other information required to enable the transmission of information by that means; and
- (b) notify each other of any change to their address or any other such information supplied by them by not less than five Business Days' notice.

34.4.2 Any such electronic communication as specified in sub-clause 34.4.1 above to be made between the Borrower and a Finance Party may only be made in that way to the extent that those two Parties agree that, unless and until notified to the contrary, this is to be an accepted form of communication.

34.4.3 Any such electronic communication as specified in sub-clause 34.4.1 above made between any two Parties will be effective only when actually received (or made available) in readable form and in the case of any electronic communication made by a Party to the Facility Agent only if it is addressed in such a manner as the Facility Agent shall specify for this purpose.

34.4.4 Any electronic communication which becomes effective, in accordance with sub-clause 34.4.3 above, after 5:00 p.m. in the place in which the Party to whom the relevant communication is sent or made available has its address for the purpose of this Agreement shall be deemed only to become effective on the following day.

34.4.5 Any reference in a Finance Document to a communication being sent or received shall be construed to include that communication being made available in accordance with this Clause 34.4.

34.5 The Borrower

All formal communication under the Finance Documents to or from the Borrower must be sent through the Facility Agent.

34.6 Communication when Facility Agent is Impaired Agent

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

35. **LANGUAGE**

35.1.1 Any notice given in connection with a Finance Document must be in English.

35.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

36. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

37. **ENFORCEMENT**

37.1 **Jurisdiction**

37.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

37.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Borrower waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

37.1.3 Notwithstanding sub-clause 37.1.1 above, no Finance Party shall be prevented from taking proceedings in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment (£)	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
HSBC Bank plc	65,000,000	N/A
Mizuho Bank, Ltd.	65,000,000	N/A
Total	£130,000,000	

SCHEDULE 2 CONDITIONS PRECEDENT

The Borrower

1. A certified copy of the constitutional documents of the Borrower.
2. A certified copy of a resolution of the board of directors or a committee of the board of directors of the Borrower approving the terms of, and the transactions contemplated by, the Finance Documents.
3. A specimen of the signature of each person authorised on behalf of the Borrower to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
4. A certificate of the Borrower (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Borrower to be exceeded.
5. A certificate of an authorised signatory of the Borrower certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Legal opinions

6. A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

7. Duly signed copies of each Finance Document.
 8. Evidence that all fees and expenses then due and payable from the Borrower under this Agreement have been or will be paid no later than the first Drawdown Date.
 9. The Original Financial Statements.
-

**SCHEDULE 3
REQUESTS**

**PART I
REQUEST**

To: Mizuho Bank, Ltd. as Facility Agent

From: Western Power Distribution plc

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. The proceeds of this Loan should be credited to [account].
6. We confirm that as at [relevant testing date] Consolidated EBITDA for the Measurement Period ending on such date was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable for the Measurement Period ending on such date was [•] to 1.
7. We confirm that as at [relevant testing date] Regulatory Asset Value was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 87.5% of the Regulatory Asset Value.
8. This Request is irrevocable.

By:

WESTERN POWER DISTRIBUTION PLC

PART II
SELECTION NOTICE

From: Western Power Distribution plc
To: Mizuho Bank, Ltd. as Facility Agent
Dated:

Dear Sirs

Western Power Distribution plc – £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Selection Notice. Terms defined in the Agreement have the same meaning in this Selection Notice unless given a different meaning in this Selection Notice.
2. We refer to the following Loan(s) with a Term ending on [•].*
3. [We request that the above Loan[s] be divided into [•] Loans with the following Terms:]**
or
[We request that the next Term for the above Loan[s] is [•]].***
4. This Selection Notice is irrevocable.

Yours faithfully

Authorised signatory for and on behalf of
Western Power Distribution plc

* Insert details of all Loans which have a Term ending on the same date.

** Use the option if division of Loans is requested.

*** Use the option if sub-division is not required.

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: Mizuho Bank, Ltd. as Facility Agent

From: [THE EXISTING LENDER] (the "**Existing Lender**") and [THE NEW LENDER] (the "**New Lender**")

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender transfers by novation to the New Lender all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or

- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]***
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•]** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]*****
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

By:

[NEW LENDER]

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

SCHEDULE 5
FORM OF ASSIGNMENT AGREEMENT

To: Mizuho Bank, Ltd. as Facility Agent

From: [THE EXISTING LENDER] (the "**Existing Lender**") and [THE NEW LENDER] (the "**New Lender**")

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is an Assignment Agreement. Terms defined in the Agreement have the same meaning in this Assignment Agreement unless given a different meaning in this Assignment Agreement.
2. We refer to Clause 27.4 (*Procedure for assignment*) of the Agreement:
 - (a) The Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement as specified in the Schedule.
 - (b) The Existing Lender is released from all the obligations of the Existing Lender which correspond to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement specified in the Schedule.
 - (c) The New Lender becomes a Party as a Lender and is bound by obligations equivalent to those from which the Existing Lender is released under paragraph (b) above.
3. The proposed Transfer Date is [].
4. On the Transfer Date the New Lender becomes Party to the Finance Documents as a Lender.
5. The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 34.2 (*Contact Details*) of the Agreement are set out in the Schedule.
6. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in Clause 27,5 (*Limitation of Existing Lender*) of the Agreement.
7. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]

- (c) [not a Qualifying Lender].*
8. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
9. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it holds a passport under the HMRC DT Treaty passport scheme (reference number [•]) and is tax resident in [•]***, so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****
10. This Assignment Agreement acts as notice to the Facility Agent (on behalf of each Finance Party) and, upon delivery in accordance with Clause 27.7 (*Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to Borrower*) of the Agreement, to the Borrower of the assignment referred to in this Assignment Agreement.
11. This Assignment Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Assignment Agreement.
12. This Assignment Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Assignment Agreement has been entered into on the date stated at the beginning of this Assignment Agreement.

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Rights to be assigned and obligations to be released and undertaken

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Existing Lender]

[New Lender]

By:

By:

This Assignment Agreement is accepted by the Facility Agent and the Transfer Date is confirmed as [].

Signature of this Assignment Agreement by the Facility Agent constitutes confirmation by the Facility Agent of receipt of notice of the assignment referred to herein, which notice the Facility Agent receives on behalf of each Finance Party.

[Facility Agent]

By:

**SCHEDULE 6
FORM OF COMPLIANCE CERTIFICATE**

To: Mizuho Bank, Ltd. as Facility Agent

From: Western Power Distribution plc

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA for the Measurement Period ending on such date was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable for the Measurement Period ending on such date was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Value was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 87.5% of the Regulatory Asset Value.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:

[•].
5. [We confirm that no Default is outstanding as at [*relevant testing date*].] ¹.

WESTERN POWER DISTRIBUTION PLC

By:

Director

Director

¹. If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 7
FORM OF INCREASE CONFIRMATION

To: Mizuho Bank, Ltd. as Facility Agent, and Western Power Distribution plc as Borrower

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it had been an Original Lender under the Agreement in respect of the Relevant Commitments.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender for the purposes of Clause 34 (*Notices*) of the Agreement are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*) of the Agreement.
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:

- (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]**
10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 8
TIMETABLES**

Delivery of a duly completed Request in accordance with Clause **Initial Request**
5.1 (*Giving of Requests*) or a Selection Notice (Clause 10.1
(*Selection*))

D

8:30am

Further Requests

D -1

10:00am

Facility Agent notifies the Lenders of the Loan in accordance with **Initial Request**
Clause 5.4 (*Advance of Loan*)

D

8:30am

Further Requests

D -1

4:00pm

LIBOR is fixed

Rate Fixing Day as of 11:00am

"D" = date of drawdown or, if applicable, in the case of a Loan that has already been borrowed, the first day of the relevant Term for that Loan.

"D- X"= Business Days prior to date of drawdown.

SCHEDULE 9
FORMS OF NOTIFIABLE DEBT PURCHASE TRANSACTION NOTICE

PART I
FORM OF NOTICE ON ENTERING INTO NOTIFIABLE DEBT PURCHASE TRANSACTION

To: [] as Facility Agent

From: [*The Lender*]

Dated:

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to sub-clause 27.10.2 of Clause 27.10 (*Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons*) of the Agreement. Terms defined in the Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. We have entered into a Notifiable Debt Purchase Transaction.
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

PART II

FORM OF NOTICE ON TERMINATION OF NOTIFIABLE DEBT PURCHASE TRANSACTION/NOTIFIABLE DEBT PURCHASE TRANSACTION CEASING TO BE WITH RELEVANT PERSON

To: [] as Agent

From: [The Lender]

Dated:

**Western Power Distribution plc - £130,000,000 Term Facility Agreement
dated [•] 2018 (the "Agreement")**

1. We refer to sub-clause 27.10.3 of Clause 27.10 (*Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons*) of the Agreement. Terms defined in the Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. A Notifiable Debt Purchase Transaction which we entered into and which we notified you of in a notice dated [•] has [terminated]/[ceased to be with a Relevant Person].
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

SCHEDULE 10
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

- (1) **WESTERN POWER DISTRIBUTION PLC** (registered number 09223384) (the **Company**);
- (2) **[SUBORDINATED CREDITOR]** (the **Subordinated Creditor**); and
- (3) **MIZUHO BANK, LTD.**, as Facility Agent acting on behalf of the Lenders (each as defined below) (the **Facility Agent**).

1. INTERPRETATION

1.1 Definitions

In this Deed:

Agreement means the £130,000,000 Term Facility Agreement dated [●] 2018 between, amongst others, Western Power Distribution plc as the Company and Mizuho Bank, Ltd. as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any

commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in Annex 1 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- (a) Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- (b) The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- (c) Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- (a) make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- (b) secure, in any manner, all or any part of the Subordinated Debt; or
- (c) defease, in any manner, all or any part of the Subordinated Debt; or
- (d) give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or

- (e) procure any other person to do any of the acts or take any of the actions referred to paragraphs (a) to (d) above.

2.3 Undertakings of the Subordinated Creditor

- (a) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (ii) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
 - (b) The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
 - (c) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (ii) initiate or support or take any steps with a view to, or which may lead to:
 - (A) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (B) any voluntary arrangement or assignment for the benefit of creditors; or
 - (C) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (iii) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (iv) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
 - (d) If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
-

- (e) The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in Clause 19.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- (a) the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- (b) any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- (c) if the trust referred to in paragraph (b) above or paragraph (d) of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- (d) the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph (b) above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- (e) the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph (b) above or to do anything

which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- (a) The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- (b) If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph (b) of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

- (a) The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- (b) Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

- (a) This Deed overrides anything in any Subordinated Finance Document to the contrary.
- (b) Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- (c) This Deed is a Finance Document.

7. ASSIGNMENT

- (a) The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

- (b) The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. **TRUSTS**

The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

9. **TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. **GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. **JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: **MIZUHO BANK, LTD.**, as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution plc. as Company, Mizuho Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION PLC**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Company contact details:

Address: [●]
Fax number: [●]
Phone number: [●]
E-mail: [●]
Attention: [●]

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address: [●]

Fax number: [●]

Phone number: [●]

E-mail: [●]

Attention: [●]

Facility Agent

EXECUTED as a DEED)
by **MIZUHO BANK, LTD.**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Facility Agent contact details:

Address: 30 Old Bailey
London
EC4M 7AU
Fax number: 44 0 203 147 4118
Phone number: 44 207 012 4703
E-mail: loanagency@mhcb.co.uk
Attention: Agency Department

Annex 2
Form of Certificate

To: Mizuho Bank, Ltd. as Facility Agent

From: [Western Power Distribution plc]

Date: [●]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [●] 2018 (the "Agreement") and Subordination Deed dated [●] (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make [*insert type of payment*] of [*insert amount and currency*] under [*insert description of relevant Subordinated Finance Document*] on [*insert date of payment*].
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION PLC**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Company contact details:

Address: [●]

Phone number: [●]

E-mail: [●]

Attention: [●]

Subordinated Creditor

EXECUTED as a DEED)
by **[SUBORDINATED CREDITOR]**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address: [●]
Fax number: [●]
Phone number: [●]
E-mail: [●]
Attention: [●]

Facility Agent

EXECUTED as a DEED)
by **MIZUHO BANK, LTD.**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Facility Agent contact details:

Address: 30 Old Bailey
London
EC4M 7AU
Fax number: 44 0 203 147 4118
Phone number: 44 207 012 4703
E-mail: loanagency@mhcb.co.uk
Attention: Agency Department

**SCHEDULE 11
FORM OF DISTRIBUTION CERTIFICATE**

To: Mizuho Bank, Ltd. as Facility Agent

From: [Western Power Distribution plc]

Date: [●]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [●] 2018 (the "Agreement")

1. We refer to the Agreement. Capitalised terms defined in the Agreement have the same meaning in this Distribution Certificate, unless given a different meaning in this Distribution Certificate.
2. We confirm that the Company will make [insert type of payment] of [insert amount and currency] on [insert date of payment].
3. We confirm that, taking into account such payment, the Borrower will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

WESTERN POWER DISTRIBUTION PLC

By:

Director

By:

Director

SIGNATORIES

THE BORROWER

Signed by) IAN WILLIAMS
for and on behalf of) RESOURCES AND EXTERNAL
AFFAIRS
) DIRECTOR
WESTERN POWER DISTRIBUTION PLC)

Address: Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Tel: 44 117 933 2374
E-mail: wpdtreasuryconfirms@westernpower.co.uk
Attention: Treasury Team

[Signature page to the Facility Agreement]

THE MANDATED LEAD ARRANGERS

Signed by) NICK BAKER
for and on behalf of) ASSOCIATE DIRECTOR
)
HSBC BANK PLC)

Address: 3 Rivergate
Temple Quay
Bristol BS1 3ER
United Kingdom
Tel: 44 345 583 9817
E-mail: sharondaw@hsbc.com

[Signature page to the Facility Agreement]

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London
EC4M 7AU

E-mail: csg@mhcb.co.uk

[Signature page to the Facility Agreement]

THE ORIGINAL LENDERS

Signed by) NICK BAKER
for and on behalf of) ASSOCIATE DIRECTOR
)
HSBC BANK PLC)

Address: 3 Rivergate
Temple Quay
Bristol BS1 3ER
United Kingdom

Tel: +44 345 583 9817
E-mail: sharondaw@hsbc.com

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London

EC4M 7AU

E-mail: csg@mhcb.co.uk

[Signature page to the Facility Agreement]

THE FACILITY AGENT

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London
EC4M 7AU

Tel: +44 (0) 207 012 4703
Fax: +44 0 207 147 4118
E-mail: loanagency@mhcb.co.uk

[Signature page to the Facility Agreement]

Conformed Copy

DATED 12 JANUARY 2012 (AS AMENDED AND RESTATED ON 29 JULY 2014 AND AS AMENDED ON 21 MARCH 2018)

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC
AS THE COMPANY

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
AS JOINT COORDINATORS

ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
AS BOOKRUNNERS AND MANDATED LEAD ARRANGERS

AND

MIZUHO BANK, LTD.
AS FACILITY AGENT

£245,000,000 MULTICURRENCY REVOLVING FACILITY AGREEMENT

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THIS AGREEMENT is dated 12 January 2012 and has been amended and restated on 29 July 2014 and amended on 21 March 2018.

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC** (registered number 02366894) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA, THE ROYAL BANK OF SCOTLAND PLC** and **THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**");
and
- (5) **MIZUHO BANK, LTD.** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"Acceptable Bank" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"Acceptable Jurisdiction" means:

- (a) the United States of America;

- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means an Arranger or the Facility Agent.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"**Agent's Spot Rate of Exchange**" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"**Amendment Agreement**" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"**Ancillary Commencement Date**" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"**Ancillary Commitment**" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"**Ancillary Document**" means each document relating to or evidencing the terms of an Ancillary Facility.

"**Ancillary Facility**" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Lender**" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Outstandings" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on

Banking Supervision in November 2011, as amended, supplemented or restated; and

- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"**Break Costs**" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"**Code**" means the US Internal Revenue Code of 1986.

"**Commitment**" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"**Compliance Certificate**" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"**Confidential Information**" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Designated Gross Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Designated Net Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

- (i) from performing its payment obligations under the Finance Documents; or
- (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"euro or euros or €" means the single currency of the Participating Member States.

"EURIBOR" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and

- (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,
the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"Finance Party" means a Lender, an Ancillary Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or

- (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and

- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
- (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"Licence" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, **provided that:**

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied.

If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"Material Subsidiary" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary

and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

"Maturity Date" means the last day of the Term of a Loan.

"Multi-account Overdraft" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"Net Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"New Lender" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"Non-Consenting Lender" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"OFGEM" means the Office of Gas and Electricity Markets.

"Optional Currency" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"Original Financial Statements" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"Participating Member State" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"Party" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**PPL**" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

"**Pre-approved Currency**" means U.S.\$ and euro.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to such term in Clause 14.1 (*Definitions*).

"**Quasi-Security Interest**" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"**Quotation Day**" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"**Reference Bank Rate**" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"Screen Rate" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"Secretary of State" means the Secretary of State for Business, Innovation and Skills.

"Security Interest" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"Specified Time" means a time determined in accordance with Schedule 7 (*Timetables*).

"Sterling" and **"£"** mean the lawful currency of the United Kingdom.

"Subordination Deed" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"Subsidiary" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"TARGET2" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"TARGET Day" means any day on which TARGET2 is open for the settlement of payments in euro.

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"**Tax Payment**" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments being £245,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Company under the Finance Documents.

"**US**" means the United States of America.

"**U.S. Dollars**" and "**U.S.\$**" means the lawful currency for the time being of the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;

- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;

- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
 - (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
 - (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
 - (p) a time of day is a reference to London time.
- 1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
-

- (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.

1.2.6 The headings in this Agreement do not affect its interpretation.

1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:

- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
- (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
- (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.

1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;

- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 **Conditions relating to Optional Currencies**

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
- 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
- (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

- 5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.
- 5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

- 5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:
- (a) the Drawdown Date is a Business Day falling within the Availability Period;
 - (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
 - (c) the proposed Term complies with this Agreement.
- 5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

- 5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 Advance of Loan

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.

5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.

5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.

5.4.5 No Lender is obliged to participate in a Loan if as a result:

- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
- (b) the Base Currency Amount of the Loans would exceed the Total Commitments.

5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. EXTENSION OPTION

6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of

the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.

6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:

(a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

(b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:

(i) be extended for a period of one year; or

(ii) be extended for a period of two years,

as selected by the Company in the notice to the Facility Agent.

6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).

6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.

6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.

6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.

6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.

7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 Revocation of currency

7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:

- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
- (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.

7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 Optional Currency equivalents

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

- 7.3.1 whether any limit under this Agreement has been exceeded;
- 7.3.2 the amount of a Loan;
- 7.3.3 the share of a Lender in a Loan;
- 7.3.4 the amount of any repayment of a Loan; or
- 7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

- 8.1.1 a multicurrency overdraft facility;
- 8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;
- 8.1.3 a short term multicurrency loan facility;
- 8.1.4 a derivatives facility;
- 8.1.5 a foreign exchange facility; or
- 8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 **Availability**

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
 - (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and

(b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

(a) the Lender concerned will become an Ancillary Lender; and

(b) the Ancillary Facility will be available,

with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

(a) must be based upon normal commercial terms at that time (except as varied by this Agreement);

(b) may only allow the Company to use the Ancillary Facility;

(c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;

(d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and

(e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

- 8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.
- 8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.
- 8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:
- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
 - (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
 - (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
 - (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.
- 8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 Limitations on Ancillary Outstandings

The Company shall procure that:

- 8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and
- 8.5.2 in relation to a Multi-account Overdraft:
- (a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and
 - (b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

- 8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.
- 8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).
- 8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.
- 8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

9.1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

10.2 Mandatory prepayment - change of control

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

10.2.3 if no such agreement is reached within the said period of 45 days then:

- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
- (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and

10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2,

and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 Voluntary prepayment

- 10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 Voluntary cancellation

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 Involuntary prepayment and cancellation

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
 - (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.

10.6.4

- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and

11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 **Payment of interest**

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 **Interest on overdue amounts**

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. **TERMS**

12.1 **Selection**

- 12.1.1 Each Loan has one Term only.
- 12.1.2 The Company must select the Term for a Loan in the relevant Request.
- 12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.
- 12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.
- 12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

- 12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.
- 12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 Market disruption

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 Alternative basis of interest or funding

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. TAX GROSS-UP AND INDEMNITIES

14.1 Definitions

14.1.1 In this Agreement:

"Qualifying Lender" means:

- (a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
 - (i) a Lender:
 - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,
and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or
 - (ii) a Lender which is:
 - (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
 - (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"**UK Non-Bank Lender**" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

- (i) the relevant Lender has not given a Tax Confirmation to the Company; and
- (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
- (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
- (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
- (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or
- (c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall

pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.

- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

- 14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance

Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or

- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;

- (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the

same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that**:

16.2.6 the Company shall have no right to replace the Facility Agent;

16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;

16.2.8 the transfer must take place no later than 14 days after the notice referred to above;

16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and

16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

17.1.1 in the principal financial centre of the country of the relevant currency; or

17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 Funds

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 Distribution

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 Currency of account

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

- 17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.
- 17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.
- 17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

- 17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 **Impaired Agent**

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.

17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).

17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:

- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
- (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. REPRESENTATIONS

18.1 Representations

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 No default

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

18.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements.

18.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or

- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 No misleading information

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;

18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and

18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 Licence

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 Sanctions

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;

19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any

member of the Group and which might, if adversely determined, have a Material Adverse Effect;

- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 Use of websites

19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Company and the Facility Agent designate an electronic website for this purpose;
- (c) the Company notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;

- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
 - (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
 - (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
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- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**Regulatory Asset Base**" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 **Interest cover**

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 **Asset Cover**

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. **GENERAL COVENANTS**

21.1 **General**

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 **Authorisations**

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 **Pari passu ranking**

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 **Negative pledge**

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or

nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;

- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;
- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

- 21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by

members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity

made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:

- (i) such disposal is made for fair market value; and
- (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 Prohibition on Subsidiary Financial Indebtedness

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 Arm's length transactions

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 Pensions

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely

to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

21.15.2 Except for in respect of WPD South Wales Plc of the Western Power Utilities Pension Scheme and the Infracore 92 Scheme, the WPD Group of the Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).

21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.

21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

21.16.1 comply with the terms of the Licence in all material respects;

21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and

21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 **Investment Grade Rating**

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 **Sanctions**

21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the

"HMT"), or other relevant sanctions authority (collectively, "**Sanctions**"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 **Anti-Corruption**

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 Breach of other obligations

- 22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).
- 22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 Cross-default

- 22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.
- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 Insolvency

- 22.5.1 Any of the following occurs in respect of the Company:
- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;

- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

22.6.1 Except as provided below, any of the following occurs in respect of the Company:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 **Licence**

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 **Balancing and Settlement Code**

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 **Unlawfulness and invalidity**

22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.

22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 **Cessation of business**

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 **Repudiation and rescission of agreements**

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

22.13 **Ownership of other Group companies**

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 **Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 **Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 **Role of the Arrangers**

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 **No fiduciary duties**

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 **Individual position of an Administrative Party**

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 **Reliance**

The Facility Agent may:

- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.

23.6 **Majority Lenders' instructions**

- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 **Responsibility**

- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
 - (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.
- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
 - (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
 - (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
 - (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,it must promptly notify the Lenders.

23.10 Information

- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility

Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.

- 23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
 - (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
 - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.

23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).

23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.

23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent

under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 **Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 **Subordination Deed**

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. **EVIDENCE AND CALCULATIONS**

24.1 **Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 **Certificates and determinations**

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. **FEES**

25.1 **Agency fee**

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 **Arrangement and participation fees**

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 **Co-ordination fee**

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 **Commitment fee**

25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 **Utilisation fee**

25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.

25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 Currency indemnity

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 Other indemnities

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 Break Costs

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. EXPENSES

27.1 Initial costs

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 Subsequent costs

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- 27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and
- 27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 Enforcement costs

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. AMENDMENTS AND WAIVERS

28.1 Procedure

- 28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

- 28.2.1 An amendment or waiver which relates to:
-

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 **Disenfranchisement of Defaulting Lenders**

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar

checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 **Excluded Commitments**

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

- 29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.
- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise)

all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "**Term**" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- 30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- 30.2.2 to any person:
- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
 - (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
 - (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
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- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*) ;
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
 - (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;
- 30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;
- 30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to

carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. **CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS**

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations

are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.

31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:

(a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and

(b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:

- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;
- (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and
- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. **SEVERABILITY**

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. **NOTICES**

36.1 **In writing**

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

- (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westernpower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: Mizuho Bank, Ltd.
Bracken House
One Friday Street
London
EC4M 9JA

Fax number: +44 207 012 4053

E-mail: maria.delellis@mhcb.co.uk

Attention: Loan Agency, Maria De Lellis

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;

- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 **The Company**

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. **LANGUAGE**

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£30,625,000	
Barclays Bank PLC	£30,625,000	
HSBC Bank plc	£30,625,000	
Lloyds Bank plc	£30,625,000	
Mizuho Bank, Ltd.	£30,625,000	
Royal Bank of Canada	£30,625,000	
The Royal Bank of Scotland plc	£30,625,000	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	£30,625,000	
Total	£245,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

SCHEDULE 3 REQUESTS

To: Mizuho Bank, Ltd. as Facility Agent

From: Western Power Distribution (South West) plc

Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
6. We confirm that as at [*relevant testing date*] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (South West) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Mizuho Bank, Ltd.** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of

the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE

To: **Mizuho Bank, Ltd.** as Facility Agent

From: **Western Power Distribution (South West) plc**

Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].
6. [We confirm that no Default is outstanding as at [*relevant testing date*].] ¹

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Mizuho Bank, Ltd.** as Facility Agent and **Western Power Distribution (South West) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
 2. We refer to Clause 2.2 (*Increase*) of the Agreement.
 3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
 4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
 5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
 6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
 7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
 8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
-

8.1.1[a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]

8.1.2[a Treaty Lender;]

8.1.3[not a Qualifying Lender].*

9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

9.1.1a company resident in the United Kingdom for United Kingdom tax purposes; or

9.1.2a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
 - ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
 - *** Insert jurisdiction of tax residence.
 - **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
 12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
 13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.
-

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

SCHEDULE 8
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN**:

1. WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC (registered number 02366894) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £245,000,000 Multicurrency Revolving Facility Agreement dated 12 January 2012 as amended from time to time between, amongst others, the Company and Mizuho Bank, Ltd. as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- 1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- 1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- 1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- 2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- 2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 Undertakings of the Subordinated Creditor

- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
 - 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
 - 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
-

(d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).

2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;

2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;

2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;

2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance

therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and

- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

- 5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- 5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

- 6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.
- 6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.

6.1.3 This Deed is a Finance Document.

7. ASSIGNMENT

7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (South West) plc as Company, Mizuho Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [AGENT])
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Facility Agent contact details:
Address:

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (South West) plc]

Date: [●]

Western Power Distribution (South West) plc - £245,000,000 Revolving Facility Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 40 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC)
acting by)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Company contact details:

Address:	Avonbank, Feeder Road, Bristol BS2 0TB
Fax number:	01179 332 108
Phone number:	01179 332 354
E-mail:	jhunt9@wsternpower.co.uk
Attention:	Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature:

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [●])
acting by)

Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by)
for and on behalf of)

WESTERN POWER)
DISTRIBUTION (SOUTH WEST) PLC)

Address: Avonbank
Feeder Road
Bristol BS2 OTB
Fax: +44 (0) 1179 332 108

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY SERVICES PLC)
(TRADING AS SANTANDER GLOBAL BANKING &)
MARKETS))
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/David Navalon Vaquero

Fax: +44(0) 845 602 7837

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
LLOYDS BANK PLC

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)20 7158 3297

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M9JA
Fax: +44(0)207 012 4301

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
ROYAL BANK OF CANADA

Attention: Mike Atherton/Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/Maggie Weiyan Tang/
Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)

THE ROYAL BANK OF SCOTLAND PLC

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0) 7085 8762

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: The Manager - Loan Participation
Fax: +44 (0)20 7557 1559

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY SERVICES PLC)
(TRADING AS SANTANDER GLOBAL BANKING &)
MARKETS))
)
)
)

Attention: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Attention: Mark Pope
Fax: +44 (0)20 7773 1840

South West – Conformed Copy

THE LENDERS

Signed by for and on behalf of)
LLOYDS BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Attention: Nick Walker (for credit matters)
Fax: +44 (0)20 7158 3297

Address: Wholesale Loan Services
Level 1, Citymark
Fax: 150 Fountainbridge
Edinburgh EH3 9PE
Attention: Linzi Inch (for administration matters)
Fax: +44 (0)20 7158 3204

South West – Conformed Copy

THE LENDERS

Signed by for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)20 7012 4301

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
ROYAL BANK OF CANADA

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912
Attention: David Banning/ Maggie Weiyan Tang/
Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
)
THE ROYAL BANK OF SCOTLAND PLC)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Attention: John Jones (for credit matters)
Fax: +44 (0)20 7085 8762
Attention: Lending Operations (for administration matters)
Fax: +44 (0)20 7672 6403

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)
)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: Robert Welford/Mayumi Saito-O'connor/
Kumar Shah
Attention: The Manager - Loan Participation
Fax: +44 (0)20 7557 1559

South West – Conformed Copy

THE FACILITY AGENT

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West – Conformed Copy

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West – Conformed Copy

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West – Conformed Copy

Handelsbanken

Bristol Queen Square

The Directors
Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Date: 20th February 2018

Dear Sirs

In accordance with arrangements recently agreed between us, we hereby set out in this letter (the "**Facility Letter**") the terms and conditions upon which we, Svenska Handelsbanken AB (publ) (the "**Bank**"), are prepared to make available an uncommitted bond/guarantee/standby letter of credit issuance facility (the "**Facility**") to you, Western Power Distribution (South West) plc Company Number 2366894 (the "**Borrower**"). This Facility Letter is open for acceptance within 30 days of the date hereof or such later date as the Bank shall agree after which it shall expire.

The principal terms on which the Facility is made available are set out in Clause 1.1, subject to the terms and conditions contained in the remainder of this Facility Letter.

1.1 Outline Terms

• Bond:	Any bid or tender bond, advance payment bond, performance bond or other bond issued or to be issued by the Bank under this Facility Letter at the request of the Borrower (each a " Bond " and together the " Bonds ") provided that no Credit Substitute Bond shall be issued under this Facility Letter.
• Currency Adjustment Limit:	110% of the Limit.
• Foreign Currency:	The Euro and any other currency which is freely convertible and transferable into Sterling and readily available in the London Interbank Market.

Svenska Handelsbanken AB (publ)

Telephone 0117 302 0080

66 Queen Square

Fax 0117 302 0077

Bristol

www.handelsbanken.co.uk/bristolqueensquare

BS1 4JP

SWIFT HANDGB22

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• Guarantee:	Any guarantee issued or to be issued by the Bank under this Facility Letter at the request of a Borrower (each a " Guarantee " and together the " Guarantees ") provided that no Credit Substitute Guarantee shall be issued under this Facility Letter.
• Limit	£5,000,000. 00 (five million pounds sterling)
• Review Date:	On or around 31 st August annually.
• Standby Letter of Credit:	Any standby letter of credit issued or to be issued under the Facility and subject to either terms of (i) Uniform Customs and Practice for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No 600 as amended by any subsequent revision or (ii) International Standby Procedures ISP98 International Chamber of Commerce Publication No 590 as amended by any subsequent revision (each a " Standby Letter of Credit " and together the " Standby Letters of Credit ") provided that no Credit Substitute Standby Letter of Credit shall be issued under this Facility Letter.

1.2 **Definitions and Interpretation**

Unless defined elsewhere the definitions which shall apply to the Facility Letter are contained in Schedule 2.

2 **The Facility**

- 2.1 The Borrower has requested and the Bank has agreed to issue Instruments pursuant to the terms and conditions of this Facility Letter in Sterling and/or Foreign Currency.
- 2.2 Furthermore the Borrower undertakes not to use the Facility for any purpose or in any manner that would result in a breach by it, or any other person, of any provision of the Bribery Act 2010.

3 **Conditions Precedent**

- 3.1 The Facility shall be available for use by the Borrower only when the Bank (i) shall have received, to its satisfaction as to their form and substance, the documents and evidence set out in Schedule 1 and (ii) is satisfied that the other conditions detailed in Schedule 1 have been satisfied. The Bank shall confirm to the Borrower in writing when it is so satisfied.
- 3.2 The Conditions Precedent set out in Schedule 1 are for the sole benefit of the Bank, and the Bank may in its sole and absolute discretion make the Facility, or a part thereof, available notwithstanding that one or more of such conditions have not been fulfilled on terms that such condition or conditions shall be fulfilled within such period or periods thereafter as the Bank shall determine unless the Bank shall otherwise agree to waive such condition or conditions in its sole and absolute discretion.

4 **Utilisation, Availability and Termination**

4.1 Utilisation of the Facility ("**Facility Utilisation**") will be calculated as the Maximum Liability of all Instruments issued and in the course of being issued.

The Sterling equivalent of any Foreign Currency amount shall be used for this purpose and shall be calculated by reference to the BankRate of Exchange on the day of such calculation.

4.2 The Facility Utilisation at any time shall not exceed the Limit and the Bank is not obliged to allow or continue to allow any utilisation in excess of the Limit.

4.3 The Facility is uncommitted and shall remain available to the Borrower until further notice but shall be subject to cancellation at any time by either the Bank or the Borrower giving written notice to the other. In the event of such cancellation no further Instruments will be issued and all sums outstanding hereunder shall become due and payable to the Bank in accordance with the provisions of Clause 16 within three Business Days of the date of such demand.

4.4 The Bank shall review the Facility on each Review Date and may contact you to discuss your future requirements. Whenever we review the Facility, we may charge you a renewal fee.

4.5 Notwithstanding any other provisions of this Facility Letter if the Facility is cancelled or repayment of any part thereof is demanded, the Bank shall be entitled at the cost and expense of the Borrower to convert the Foreign Currency utilisation of the Facility into Sterling and the Borrower shall be obliged to repay all such sums in Sterling. The Bank Rate of Exchange shall be used in relation to such conversion.

5 **Instruments**

5.1 Subject to the prior satisfaction of the Conditions Precedent, and the Bank's agreement, the Borrower may request the Bank in writing to issue an Instrument each of which shall:-

5.1.1 be valid for a period not exceeding 2 years or such other period as the Bank may agree from time to time; and

5.1.2 only be issued where the Bank has been provided with such further supporting documentation as the Bank may at its sole discretion require.

The Bank reserves the right, in any event, to decline to issue any Instrument.

5.2 The Bank's Maximum Liability under an Instrument shall be treated as reduced for the purposes of this Facility Letter only when and to the extent that:

5.2.1 the Bank has received written confirmation from the beneficiary of the Instrument or the correspondent bank issuing such Instrument of the amount of such reduction; or

5.2.2 the Bank has made a payment under the Instrument and the terms of the Instrument allow for the Bank's Maximum Liability thereunder to be irrevocably reduced by the amount of any such payment; or

5.2.3 the Bank is otherwise satisfied that its Maximum Liability under the Instrument has been irrevocably reduced.

5.3 The Bank's Maximum Liability under an Instrument shall be treated as extinguished for the purposes of this Facility Letter only when and to the extent that:-

- 5.3.1 the Bank has received written confirmation from the beneficiary of the Instrument or the correspondent bank issuing such Instrument that the Bank's Maximum Liability under the Instrument has been extinguished and/or the Instrument is returned to the Bank; or
- 5.3.2 the Bank has settled its Maximum Liability under the Instrument in full; or
- 5.3.3 the Bank is otherwise satisfied that its Maximum Liability under the Instrument has been extinguished.

6 **Fees**

- 6.1 The Borrower shall pay any Bond, Guarantee and Standby Letter of Credit transactional fees as detailed in the Bond, Guarantee and Standby Letter of Credit tariff agreed between the Borrower and the Bank. The Borrower will be notified of any variation to the tariff by the Bank giving 30 day's notice in writing.
- 6.2 The Borrower will pay to the Bank quarterly in advance and commencing on the date of issue of the relevant Instrument an amount equal to the Risk Fee calculated on the Maximum Liability of such Instrument for such quarterly period or part thereof together with fees payable under any Bond, Guarantee and Standby Letter of Credit tariff as may be agreed between the Borrower and the Bank from time to time.
- 6.3 The Risk Fee on each Instrument shall be paid in Sterling. The Risk Fee on an Instrument denominated in Foreign Currency shall be calculated by reference to the Bank Rate of Exchange for the relevant Foreign Currency against Sterling.
- 6.4 Where an Instrument is issued by a correspondent bank such charges and commission charged by such correspondent bank shall be paid by the Borrower within three Business Days of demand by the Bank.

7 **Indemnity**

- 7.1 In consideration of the Bank issuing Instruments and such documentation as may be entered into pursuant to such Instruments (all as referred to and/or as defined elsewhere herein and referred to below as the "said obligations"), the Borrower hereby:-
 - 7.1.1 irrevocably authorises the Bank to make any payment and comply with any demand which may be claimed from or made upon it under the terms of each and any of the said obligations without any reference to or further authority from the Borrower and without enquiry into the justification therefor or validity thereof and the Borrower agrees that any payment which the Bank shall make in accordance or purporting to be in accordance with any of the said obligations shall be binding upon the Borrower and shall be accepted by the Borrower as conclusive evidence that the Bank was liable to make such payment with such demand;
 - 7.1.2 agrees that the Bank may without the knowledge or consent of the Borrower determine, renew, reduce, increase or vary in any respect the terms of the said obligations or compound with or grant time or other indulgence to or for any other person whatsoever or deal with, exchange, release, modify or abstain from perfecting or enforcing any security or other guarantee or right which the Bank now has or may hereafter have against the Borrower or any such other person, and this indemnity shall not be discharged nor shall the liability of the Borrower under it be impaired or discharged by any of those matters;

7.1.3 agrees and undertakes at all times hereafter to well and sufficiently indemnify the Bank and keep the Bank indemnified from and against all payments made under each and any of the said obligations, all claims made upon by the Bank under the terms of any Instrument and against all actions, suits, proceedings, claims, demands, liabilities, losses, costs, charges, damages and expenses whatsoever in relation to or arising out of each and any of the said obligations and to pay or reimburse to the Bank within three Business Days of demand an amount equal to the amount of any claim made upon the Bank under the terms of any Instrument and all payments, losses, costs, and expenses made, suffered or incurred by it under each and any of the said obligations or in consequence thereof or arising therefrom;

7.1.4 irrevocably authorises the Bank (without prejudice to any other right the Bank may have) to (i) debit to an account in the name of the Borrower or to any of their accounts with the Bank all such payments, losses, costs and expenses whether such account or accounts is or are overdrawn or may become overdrawn by reason of any such debit; (ii) open, in the Borrower's name, such accounts as the Bank shall see fit; and (iii) carry out, at the Borrower's expense, any foreign exchange transactions as may be necessary to enable the Bank to debit an account notwithstanding that the payments owing under the Instrument may have been in a Foreign Currency; and

7.1.5 agrees that its obligations under this Clause 7:-

- (i) shall be unconditional and are and will remain in full force and effect by way of continuing indemnity until full and irrevocable discharge of all the said obligations;
- (ii) are additional to, and not in substitution for, any security, guarantees, other indemnities or rights of subrogation at any time existing in favour of the Bank, whether granted by the Borrower or any other person, and are cumulative and not exclusive of any rights or remedies provided by law; and
- (iii) shall not be affected by (1) any invalidity, illegality, irregularity or unenforceability of or defect in any provision of this Facility Letter, (2) any time, indulgence, waiver or consent at any time given to the Borrower or any other person, (3) any amendment to this Facility Letter, (4) the enforcement or absence of enforcement of any claim against the Borrower or of any other security, guarantee or indemnity, (5) the release of any such claim, security, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction or reorganisation of the Borrower or (7) any other matter or thing whatsoever which might affect the Borrower's obligations under this Facility Letter, except for full and irrevocable payment and discharge of all the obligations of the Borrower to the Bank in respect of all the said obligations.

7.2 The obligations of the Borrower under this Clause 7 shall survive the payment in full of the liabilities of the Bank under the said obligations and shall only terminate when the Instrument and/or other documents evidencing the said obligations, if applicable, are returned to the Bank marked "cancelled" (or other similar wording acceptable to the Bank) or the Bank is satisfied that it has no further liabilities in respect thereof. The Borrower agrees to use all reasonable endeavours to procure the return to the Bank of the Instrument and any other documents evidencing the said obligations, upon expiry or payment in full by the Bank of all sums payable thereunder.

7.3 This indemnity shall constitute and be a continuing security to the Bank for as long as any liabilities shall remain upon the Bank in respect of the said obligations and shall extend to any and all extensions, renewals or replacements thereof. The Bank's certificate in respect of any amounts called for shall be final and conclusive, save for manifest error.

8 Increased Costs, Default Interest and Currency Adjustment Limit

8.1 The Borrower shall, within three Business Days of a demand by the Bank, pay the Bank the amount of any Increased Costs incurred by the Bank as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law, regulation or directive (whether or not having the force of law) or (ii) compliance with any law, regulation or directive (whether or not having the force of law) made after the date of this Facility Letter.

8.2 In this Facility Letter "**Increased Costs**" means:

8.2.1 a reduction in the rate of return from the Facility or on the Bank's overall capital;

8.2.2 an additional or increased cost; or

8.2.3 a reduction of any amount due and payable under this Facility Letter,

which is incurred or suffered by the Bank to the extent that it is attributable to the Bank having entered into this Facility Letter or funding or performing its obligations under this Facility Letter.

8.3 The Bank prior to making a claim pursuant to Clause 8.1 above shall notify the Borrower of the event giving rise to the claim and shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

8.4 If the Borrower shall fail to pay any sum due hereunder or under the judgement of any court in connection herewith on the due date therefor, then as a separate obligation the Borrower shall pay to the Bank interest at the Default Rate on any such sum due to the Bank up to the date on which such sum is repaid and any other amounts outstanding under this Facility Letter have been paid in full. Interest shall be payable at the rate both before and after demand, court decree or judgment on such dates advised by the Bank to the Borrower any such interest which is not paid when due shall be added to the overdue sum and itself bear interest accordingly.

8.5 Currency Adjustments

In the event that the Facility is utilised in a Foreign Currency the Bank will, from time to time, calculate the Sterling equivalent of the sums outstanding under the Facility on the basis of the Bank Rate of Exchange on the day of such calculation. In the event that the Sterling equivalent of the sums outstanding under the Facility exceeds the Currency Adjustment Limit then the Borrower shall deposit with the Bank, on the Bank's first demand, such sums as the Bank shall require (to be held in a blocked account in the name of the Borrower maintained with the Bank) to reduce the Sterling equivalent of the Bank's Maximum Liability under the Facility to within the Limit when such deposit is deducted from the Bank's Maximum Liability.

8.6 The Bank's certificate as to the amounts due pursuant to this Clause 8 shall be final and conclusive, save for manifest error.

9 Financial Information

The Borrower shall forthwith provide to the Bank such financial information as the Bank may request from time to time including, but not limited to the Financial Statements of the Borrower within 180 days of the end of each financial year.

10 Payments, Calculations and Tax Indemnity

10.1 All interest shall accrue from day to day and be calculated on the basis of the actual number of days elapsed within a year of 365 days or 360 days as appropriate dependent upon the currency.

- 10.2 All sums payable by the Borrower to the Bank shall be paid without deduction for or on account of any set-off or counter-claim and free and clear of any deduction or withholding of any nature (including taxation) unless such a deduction or withholding is required by law.
- 10.3 If any amount is required by law to be deducted or withheld from any sum payable hereunder then the Borrower shall pay such an additional amount as will ensure that, after the making of such deduction or withholding, the Bank shall receive a net sum equal to the sums which the Bank would have received had no such deduction or withholding been required to be made.
- 10.4 If it becomes necessary to convert into another currency any amount due by the Borrower hereunder or under any Instrument the Borrower undertakes as an independent obligation to pay such additional amounts as may be necessary to ensure that the total amount paid in the second currency when converted at the Bank Rate of Exchange on the date of payment to the Bank will produce the amount then due from the Borrower to the Bank in the original currency.
- 10.5 The Borrower shall (within three Business Days of demand by the Bank) pay to the Bank an amount equal to the loss, liability or cost which the Bank determines will be or has been (directly or indirectly) suffered for or on account of Tax by the Bank in respect of the Facility Letter.
- 10.6 Clause 10.5 above shall not apply:
- 10.6.1 with respect to any Tax assessed on the Bank under the law of the jurisdiction in which the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes, if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Bank; or
 - 10.6.2 to the extent a loss, liability or cost is compensated for by an increased payment under Clause 10.3.
- 10.7 If the Bank makes (or intends to make) a claim under Clause 10.5 above, it shall notify the Borrower as soon as is reasonably practicable of the event which has caused (or will cause) that claim, however, the Bank's entitlement to exercise its rights under Clause 10.5 above is not conditional on such notification being made in accordance with this Clause 10.7.
- 10.8 For the purposes of Clauses 10.5 and 10.6:
- "Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

11 **Security**

The Facility will be secured by any security which the Bank may in the future obtain in accordance with Clause 8.5 and Clause 16.2

12 **Set-Off**

- 12.1 In addition to any other rights to which it may be entitled, the Bank may retain, set off or appropriate any credit balances in name of the Borrower (whether current or not yet due) against any of the Borrower's obligations to the Bank under this Facility Letter that are overdue from time to time. The Bank may exercise any of these rights without prior notice both before and after demand and in so doing may convert to Sterling at the Bank Rate of Exchange any balance which is in a currency other than Sterling.
- 12.2 Nothing expressed or implied in this Facility Letter or any other document in connection herewith shall be regarded as in any way negating or affecting any right which the Bank may have under applicable law to apply

any credit balances to which the Borrower is entitled on any account of the Borrower in or towards satisfaction of any sum due from the Borrower hereunder.

13 **Remedies, Waivers, Amendments and Consents**

- 13.1 No failure on the part of the Bank to exercise, and no delay on its part in exercising, any right or remedy under this Facility Letter will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Facility Letter are cumulative and not exclusive of any rights or remedies provided by law or otherwise.
- 13.2 Save to the extent expressly provided to the contrary in this Facility Letter a person who is not a party to this Facility Letter may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

14 **Assignment and Transferability**

- 14.1 The Borrower may not assign, transfer or otherwise dispose of all or any part of its rights, benefits or obligations under this Facility Letter.
- 14.2 The Bank may at any time assign, novate or transfer all or any part of its rights, benefits and obligations under this Facility Letter or grant participations therein to any one or more banks or financial institutions and the Borrower and any other party to this Facility Letter hereby agrees to execute any documents required to enable the Bank so to do (provided that the Borrower and any such other party shall neither be required thereby to pay any greater amount to satisfy its obligations hereunder nor be responsible for any legal or statutory costs or duties arising therefrom) and the Borrower and any other party to this Facility Letter further agrees that the Bank may disclose any information to any such bank or financial institution for said purpose.

15 **Severance**

If at any time any one or more of the provisions of this Facility Letter is or becomes invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not thereby be affected, reduced or impaired in any way.

16 **Cash Cover**

- 16.1 In the event that the availability of the Facility is cancelled or terminated the Bank may, at its sole discretion, and without prejudice to the other provisions in this Facility Letter call on the Borrower to deposit with and the Borrower will pay to the Bank an amount up to the aggregate Maximum Liability of all Instruments issued under the Facility, together with any fees due. In the absence of such funds being provided the Bank shall be entitled at its discretion to obtain payment by debiting the amount to an account of the Borrower with the Bank.
- 16.2 If the Bank requires, at its sole discretion, any amount paid to the Bank pursuant to this Clause and/or Clause 8.5 will be charged to the Bank as security against any claims made upon the Bank under the Instruments, the Borrower undertakes to promptly and in any event within 3 Business days of receiving the Banks preferred form of security, grant or cause to be granted to the Bank security in the Bank's preferred form over such amounts.
- 16.3 Any sums deposited with or charged to the Bank in terms of this Clause and Clause 8.5 shall be held in an interest-bearing account and may be applied by the Bank, at its sole discretion, against any claims made upon the Bank under any Instrument.

17 Costs and Expenses

- 17.1 The Borrower agrees that the costs and expenses, including legal fees, disbursements registration fees and value added tax thereon, incurred by the Bank in connection with the preparation, negotiation, execution and registration of this Facility Letter and any other documents required in connection with the Facility shall be for the Borrower's account and the Borrower hereby indemnifies the Bank in respect of payment thereof.
- 17.2 The Borrower further undertakes to reimburse and indemnify the Bank for any and all costs, interest, charges and expenses incurred by the Bank, as well after as before judgement, in connection with preserving, enforcing or seeking to preserve or enforce its rights in respect of this Facility Letter or any amendment thereto, or in connection with the granting of any approvals or consents hereunder or thereunder.

18 Notices

- 18.1 Each notice or other communication to be given under this Facility Letter shall be given in writing in English and, unless otherwise provided, shall be made by hand, fax or letter. For the avoidance of doubt, notices shall not be validly served by e-mail and any payment instructions may not be served by facsimile, unless the Borrower adopts the Bank's security procedures.

Any notice or other communication to be given by one party to another under this Facility Letter shall (unless one party has by no less than 5 Business Days' notice to the other party specified another address) be given:-

18.1.1 in the case of the Borrower to its registered office; and

18.1.2 in the case of the Bank to the address detailed above.

- 18.2 Any notice or other communication given by any party shall be deemed to have been received:

18.2.1 in the case of a notice given by hand, at the time of day of actual delivery; or

18.2.2 if sent by fax, with a confirmed receipt of transmission from the receiving machine, on the day on which it is transmitted; or

18.2.3 if posted, by 10 am on the second Business Day following the day on which it was despatched by first class mail postage prepaid,

provided that a notice given in accordance with the above but received on a day which is not a Business Day or after normal business hours in the place of receipt shall be deemed to have been received on the next Business Day.

19 Governing Law

This Facility Letter shall be governed by and construed in accordance with the laws of England and Wales.

If you are in agreement with the aforesaid provisions, please sign and return the enclosed copy of this Facility Letter, as your acceptance of the terms and conditions set out herein.

Yours faithfully

For and on behalf of
SVENSKA HANDELSBANKEN AB (publ)

Authorised Signatory

Authorised Signatory

The Borrower hereby confirms and accepts the above mentioned terms and conditions contained in this Facility Letter and the following Schedules.

The Borrower

Signed for and on behalf of the Borrower
with the full authority of the Board of Directors

Director

Director/Secretary

.Date _____

Schedule 1 – Conditions Precedent

- 1 A copy of this Facility Letter signed by duly authorised officials accepting on behalf of the Borrower or the terms and conditions set out herein;
 - 2 A Bank Mandate duly completed by or on behalf of the Borrower, together with such other documents as the Bank shall require to complete its account opening formalities and to ensure compliance with money laundering obligations;
 - 3 A copy of the Borrower's Certificate of Incorporation;
 - 4 A copy certified as true and accurate by a Director or the Secretary of the Borrower of a resolution authorising the appropriate officials to act on behalf of and to bind the Borrower in the acceptance of the terms and conditions of this Facility Letter, the execution of this Facility Letter and any other necessary supporting documents ancillary thereto and negotiate any utilisation under this Facility on behalf of the Borrower.
-

Schedule 2 – Definitions and Interpretation

"Bank Rate of Exchange" means the Bank's rate of exchange for the purchase of the relevant Foreign Currency with Sterling, or as the case may be, the purchase of Sterling with the relevant Foreign Currency, on a particular day, or at a particular time, as such rate may be adjusted to reflect any minor operational or administrative processes within the Bank at the time the rate is required to be calculated.

"Business Day" means:-

- (a) for the purposes of rate fixing/drawing/payments in relation to Euros a TARGET Day; and
- (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks are open for general business in London and, in the case of a Foreign Currency, in the principal financial centre for that Foreign Currency.

"Credit Substitute Bond" means a bond which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a bond related to the payment or repayment of financial indebtedness.

"Credit Substitute Guarantee" means a guarantee which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a guarantee related to the payment or repayment of financial indebtedness.

"Credit Substitute Standby Letter of Credit" means a standby letter of credit which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a standby letter of credit related to the payment or repayment of financial indebtedness.

"Currency Adjustment Limit" means the currency adjustment limit set out in Clause 1.1.

"Default Rate" means the aggregate of (i) the Bank's default interest margin in force from time to time, currently 2% per annum and (ii) the cost to the Bank of funding that sum during that period by whatever means it considers appropriate.

"Euro" and **"€"** means the single currency adopted or to be adopted by participating member states under the Treaty establishing the European Union.

"Financial Statements" means audited annual profit and loss account, balance sheet and cash flow statement for each financial year (consolidated for each financial year during which any relevant corporate body has a subsidiary) together with related directors' or members' reports (as appropriate) and auditors' reports and the notes attached thereto.

"Foreign Currency" means the foreign currencies as set out in Clause 1.1.

"Instruments" means Bonds and/or Guarantees and/or Standby Letters of Credit, and each an **"Instrument"**.

"Limit" means the amount of the Facility set out in Clause 1.1.

"Maximum Liability" means in respect of the Instruments the maximum amount that may become payable by the Bank to the beneficiary under it (whether present or future, actual or contingent) or the correspondent bank issuing such Instrument;

"Risk Fee" means the risk fee as detailed in the tariff agreed between the Borrower and the Bank from time to time.

"**Sterling**" and the sign "£" mean the lawful currency of the United Kingdom.

"**TARGET2**" means the Trans-European Automated Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET Day**" means any day on which TARGET2 is open for the settlement of payments in Euros.

Interpretation

Any reference in this Facility Letter to:

- (a) statutes, statutory provisions and other legislation shall include all amendments, substitutions, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant legislation.
- (b) "**including**" shall not be construed as limiting the generality of the words preceding it.
- (c) any clause, paragraph or schedule shall be construed as a reference to the clauses in this Facility Letter, the schedules to this Facility Letter and the paragraphs in such schedules.
- (d) the singular shall include the plural and vice versa and words denoting any gender shall include all genders and if any party to this Facility Letter constitutes more than one person all covenants, conditions and obligations shall be deemed to be given by all such parties on a joint and several basis unless this Facility Letter specifically provides otherwise.
- (e) this Facility Letter and to any provisions of it or to any other document referred to in this Facility Letter shall be construed as references to it in force for the time being and as amended, varied, supplemented, restated, substituted or novated from time to time.
- (f) a person is to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity.
- (g) any person is to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect.
- (h) any word or phrase includes all derivations thereof.
- (i) a matter being in the opinion of the Bank or at the Bank's discretion shall be in the sole opinion of the Bank taking into consideration the Bank's interests hereunder and in the case of the Bank's discretion it shall be at the Bank's sole unfettered discretion without taking into consideration other party's interests.

Clause headings are for ease of reference only and are not to affect the interpretation of this Facility Letter.

Schedule 3 – Suggested Extract for Minutes

Resolution re Facility Letter

Extract from the Minutes of a Meeting of the Directors

of Western Power Distribution (South West) plc (the 'Company')

"After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business the Company agreed to enter into the Facility Letter in the form now produced (the "Letter").

It was resolved that the Letter be executed for and on behalf of the Company either by a Director and its Secretary, or by two Directors.

I hereby certify that the foregoing is a true extract from the Minutes of a Meeting of [a committee of] the Directors at which (all appropriate interests having been declared) a quorum entitled to vote was present duly held on the day of 20 and that a true copy of the Letter has been retained by the Company.

Secretary

Handelsbanken

Bristol Queen Square

The Directors
Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Date: 28th February 2018

Dear Sirs

In accordance with arrangements recently agreed between us, we hereby set out in this letter (the "**Facility Letter**") the terms and conditions upon which we, Svenska Handelsbanken AB (publ) (the "**Bank**"), are prepared to make available an uncommitted money market facility (the "**Facility**") to you, Western Power Distribution (South West) plc, Company Number 2366894 (the "**Borrower**")

This Facility Letter is open for acceptance within 30 days of the date hereof or such later date as the Bank shall agree after which it shall expire.

This Facility Letter supersedes all prior agreements, arrangements or correspondence between the Bank and the Borrower in relation to the Facility.

The principal terms on which the Facility is made available are set out in Clause 1.1, subject to the terms and conditions contained in the remainder of this Facility Letter.

1.1 Outline Terms

- **Amount & Type of Facility:** £75,000,000 (seventy five million pounds sterling) money market facility.
- **Bank's Fees:**
 - Arrangement Fee £15,000 payable on signing this Facility Letter.
 - Annual Fee £11,250 payable yearly in advance with effect from 1st March 2018
 - Breakage Fee £300 payable on the date a Drawing or any part thereof is repaid or prepaid other than on the relevant Maturity Date.
 - Break Costs (if applicable).
- **Review Date:** On or around 28th February annually
- **Specified Purpose:** General business purposes.

1.2 Definitions and Interpretation

Unless defined elsewhere the definitions which shall apply to the Facility Letter are contained in Schedule 2.

Bristol
BS1 4JP

www.handelsbanken.co.uk/bristolqueensquare
SWIFT HANDGB22

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2 **The Facility**

The Borrower may only use the Facility for the Specified Purpose and furthermore undertakes not to use the Facility for any purpose or in any manner that would result in a breach by it, or any other person, of any provision of the Bribery Act 2010.

3 **Conditions Precedent**

- 3.1 The Facility shall be available for use by the Borrower only when the Bank (i) shall have received, to its satisfaction as to their form and substance, the documents and evidence set out in Schedule 1 and (ii) is satisfied that the other conditions detailed in Schedule 1 have been satisfied.
- 3.2 The Conditions Precedent set out in Schedule 1 are for the sole benefit of the Bank, and the Bank may in its sole and absolute discretion make the Facility, or a part thereof, available notwithstanding that one or more of such conditions have not been fulfilled on terms that such condition or conditions shall be fulfilled within such period or periods thereafter as the Bank shall determine unless the Bank shall otherwise agree to waive such condition or conditions in its sole and absolute discretion.

4 **Utilisation, Availability and Termination**

- 4.1 Utilisation of the Facility ("**Facility Utilisation**") will be calculated as the aggregate value of outstanding Drawings.
- 4.2 Facility Utilisation at any time shall not exceed the Limit and the Bank is not obliged to allow or continue to allow any utilisation in excess of the Limit.
- 4.3 The Facility is uncommitted and shall remain available to the Borrower until further notice but shall be subject to cancellation at any time by either the Bank or the Borrower giving written notice to the other. In the event of such cancellation no further Drawings shall be made available and the Bank will be entitled to require the Borrower to immediately repay all Drawings in accordance with the provisions of Clause 5.5.
- 4.4 The Bank shall review the Facility on each Review Date and may contact you to discuss your future requirements. Whenever we review the Facility, we may charge you a renewal fee.
- 4.5 All sums outstanding under the Facility together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand at all times.

5 **Drawings**

- 5.1 Borrowings by way of drawings shall be permitted at the Bank's discretion (together the "**Drawings**" each a "**Drawing**").
- 5.2 Each Drawing shall be for an amount, a period and at an interest rate, all to be mutually agreed at the time of each such Drawing, such period to expire no later than the next Quarter Day unless otherwise agreed by the Bank.
- 5.3 Interest on Drawings shall be payable by the Borrower in full in immediately available funds, on the relevant Maturity Date and on any date that a Drawing is renewed for a further period pursuant to Clause 5.4.
- 5.4 Each Drawing shall be repaid in full by the Borrower on the relevant Maturity Date unless the Bank, in its sole discretion, shall agree to renew any such Drawing for a further period in which case the Maturity Date for such Drawing shall be extended accordingly.

- 5.5 Notwithstanding any other term of this Facility Letter each Drawing together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand and in the event that the Facility is cancelled or demand is made by the Bank, the Bank shall be entitled at the cost of the Borrower to break any interest period that may be applicable to a Drawing and the Borrower shall pay to the Bank the Breakage Fee and all Break Costs arising as a result thereof together with accrued interest. In the event that the Bank shall exercise such right all Drawings outstanding shall thereafter be fixed for such interest periods as shall be determined by the Bank in its sole and absolute discretion.
- 5.6 If there is a repayment, prepayment or recovery of all or any part of a Drawing other than on the relevant Maturity Date, then the Borrower will pay to the Bank on demand an amount equal to the Break Costs together with the Breakage Fee and the Borrower indemnifies the Bank against any other costs, liabilities or expenses incurred by the Bank in connection with that early repayment, prepayment or recovery.
- 5.7 Any notice of prepayment under this Facility Letter shall be irrevocable and the provisions of this Clause 5 shall apply to any prepayment.
- 5.8 If the prepayment sum is received by the Bank after 10 am then the Bank may treat such prepayment as if it had been received on the next Business Day. Any prepayment must be accompanied by any Breakage Fee and all Break Costs arising as a result thereof together with accrued interest.

6 **Fees**

- 6.1 In consideration of the Bank making the Facility available hereunder the Borrower shall pay to the Bank, the Bank's Fees which if not previously paid shall be deducted from any Drawing made hereunder. Any fees as set out in Clause 1.1 not due on first utilisation shall be debited to the Borrower's account and be payable in advance at the time or times and in the manner set out in Clause 1.1.
- 6.2 In the event that the level of administration undertaken by the Bank in connection with the operation and monitoring of the Facility shall in the opinion of the Bank have increased or be likely to increase from that envisaged by the Bank when the Facility was originally agreed then the Bank shall have the right to charge the Borrower an Administration Fee.

7 **Increased Costs and Default Interest**

- 7.1 The Borrower shall, within three Business Days of a demand by the Bank, pay the Bank the amount of any Increased Costs incurred by the Bank as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law, regulation or directive (whether or not having the force of law) or (ii) compliance with any law, regulation or directive (whether or not having the force of law) made after the date of this Facility Letter.
- 7.2 In this Facility Letter "**Increased Costs**" means:
- 7.2.1 a reduction in the rate of return from the Facility or on the Bank's overall capital;
 - 7.2.2 an additional or increased cost; or
 - 7.2.3 a reduction of any amount due and payable under this Facility Letter,

which is incurred or suffered by the Bank to the extent that it is attributable to the Bank having entered into this Facility Letter or funding or performing its obligations under this Facility Letter.

- 7.3 The Bank prior to making a claim pursuant to Clause 7.1 above shall notify the Borrower of the event giving rise to the claim and shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

7.4 If the Borrower shall fail to pay any sum due hereunder or under the judgement of any court in connection herewith on the due date therefor, then as a separate obligation the Borrower shall pay to the Bank interest at the Default Rate on any such sum due to the Bank up to the date on which such sum is repaid and any other amounts outstanding under this Facility Letter have been paid in full. Interest shall be payable at the rate both before and after demand, court decree or judgment on such dates advised by the Bank to the Borrower any such interest which is not paid when due shall be added to the overdue sum and itself bear interest accordingly.

7.5 The Bank's certificate as to the amounts due pursuant to this Clause 7 shall be final and conclusive, save for manifest error.

8 **Financial Information**

The Borrower shall forthwith provide to the Bank such financial information as the Bank may request from time to time including, but not limited to the Financial Statements of the Borrower within 180 days of the end of each financial year.

9 **Payments, Calculations and Tax Indemnity**

9.1 All interest shall accrue from day to day and be calculated on the basis of the actual number of days elapsed within a year of 365 days.

9.2 All sums payable by the Borrower to the Bank shall be paid without deduction for or on account of any set-off or counter-claim and free and clear of any deduction or withholding of any nature (including taxation) unless such a deduction or withholding is required by law.

9.3 If any amount is required by law to be deducted or withheld from any sum payable hereunder then the Borrower shall pay such an additional amount as will ensure that, after the making of such deduction or withholding, the Bank shall receive a net sum equal to the sums which the Bank would have received had no such deduction or withholding been required to be made.

9.4 The Borrower shall (within three Business Days of demand by the Bank) pay to the Bank an amount equal to the loss, liability or cost which the Bank determines will be or has been (directly or indirectly) suffered for or on account of Tax by the Bank in respect of the Facility Letter.

9.5 Clause 9.4 above shall not apply:

9.5.1 with respect to any Tax assessed on the Bank under the law of the jurisdiction in which the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes, if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Bank; or

9.5.2 to the extent a loss, liability or cost is compensated for by an increased payment under Clause 9.3.

9.6 If the Bank makes (or intends to make) a claim under Clause 9.4 above, it shall notify the Borrower as soon as is reasonably practicable of the event which has caused (or will cause) that claim, however, the Bank's entitlement to exercise its rights under Clause 9.4 above is not conditional on such notification being made in accordance with this Clause 9.6.

9.7 For the purposes of Clauses 9.4 and 9.5:

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

10 **Security**

The Facility will be secured by any security which the Bank may in the future obtain.

11 **Set-Off**

11.1 In addition to any other rights to which it may be entitled the Bank may retain, set off or appropriate any credit balances in name of the Borrower (whether current or not yet due) against the Borrower's obligations to the Bank under this Facility Letter. The Bank may exercise any of these rights without prior notice both before and after demand and in so doing may convert to sterling at the Bank Rate of Exchange any balance which is in a currency other than sterling.

11.2 Nothing expressed or implied in this Facility Letter or any other document in connection herewith shall be regarded as in any way negating or affecting any right which the Bank may have under applicable law to apply any credit balances to which the Borrower is entitled on any account of the Borrower in or towards satisfaction of any sum due from the Borrower hereunder.

12 **Severance**

If at any time any one or more of the provisions of this Facility Letter is or becomes invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not thereby be affected, reduced or impaired in any way.

13 **Remedies, Waivers, Amendments and Consents**

13.1 No failure on the part of the Bank to exercise, and no delay on its part in exercising, any right or remedy under this Facility Letter will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Facility Letter are cumulative and not exclusive of any rights or remedies provided by law or otherwise.

13.2 Save to the extent expressly provided to the contrary in this Facility Letter a person who is not a party to this Facility Letter may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

14 **Assignment and Transferability**

14.1 The Borrower may not assign, transfer or otherwise dispose of all or any part of its rights, benefits or obligations under this Facility Letter.

14.2 Subject to clause 14.3 below, the Bank may, with the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time and its own cost assign, novate or transfer all or any part of its rights, benefits and obligations under this Facility Letter or grant participations therein to any one or more banks or financial institutions and the Borrower and any other party to this Facility Letter hereby agree to execute any documents required to enable the Bank so to do (provided that the Borrower and any such other party shall neither be required thereby to pay any greater amount to satisfy its obligations hereunder nor be responsible for any legal or statutory costs or duties arising therefrom) and the Borrower and any other party to this Facility Letter further agrees that the Bank may disclose any information to any such bank or financial institution for said purpose.

14.3 The consent of the Borrower will be deemed to have been given if:

14.3.1 the transfer is to an Affiliate of the Bank;

14.3.2 a breach of the Borrower's obligations has occurred and is continuing; or

14.3.3 within 10 Business Days of receipt by the Borrower of a written application for consent, it has not been expressly refused, provided, in each case, that at the time of the proposed transfer no deduction or withholding would be required by law in respect of any payment to the transferee at such time to the extent that no deduction or withholding would have been required in respect of a payment to the Bank.

15 **Costs and Expenses**

15.1 The Borrower agrees that the costs and expenses, including legal fees, disbursements registration fees and value added tax thereon, incurred by the Bank in connection with the preparation, negotiation, execution and registration of this Facility Letter, and any other documents required in connection with the Facility shall be for the Borrower's account and the Borrower hereby indemnifies the Bank in respect of payment thereof.

15.2 The Borrower further undertakes to reimburse and indemnify the Bank for any and all costs, interest, charges and expenses incurred by the Bank, as well after as before judgement, in connection with preserving, enforcing or seeking to preserve or enforce its rights in respect of this Facility Letter or any amendment thereto, or in connection with the granting of any approvals or consents hereunder.

16 **Notices**

16.1 Each notice or other communication to be given under this Facility Letter shall be given in writing in English and, unless otherwise provided, shall be made by hand, fax or letter. For the avoidance of doubt, notices shall not be validly served by e-mail.

Any notice or other communication to be given by one party to another under this Facility Letter shall (unless one party has by no less than 5 Business Days' notice to the other party specified another address) and shall be given:-

16.1.1 in the case of the Borrower to its registered office; and

16.1.2 in the case of the Bank to the address detailed above.

16.2 Any notice or other communication given by any party shall be deemed to have been received:

16.2.1 in the case of a notice given by hand, at the time of day of actual delivery; or

16.2.2 if sent by fax, with a confirmed receipt of transmission from the receiving machine, on the day on which it is transmitted; or

16.2.3 if posted, by 10 am on the second Business Day following the day on which it was despatched by first class mail postage prepaid,

provided that a notice given in accordance with the above but received on a day which is not a Business Day or after normal business hours in the place of receipt shall be deemed to have been received on the next Business Day.

17 **Governing Law**

This Facility Letter shall be governed by and construed in accordance with the laws of England and Wales.

If you are in agreement with the aforesaid provisions, please sign and return the enclosed copy of this Facility Letter, as your acceptance of the terms and conditions set out herein.

Yours faithfully
For and on behalf of
SVENSKA HANDELSBANKEN AB (publ)

Authorised Signatory

Authorised Signatory

The Borrower hereby confirms and accepts the above mentioned terms and conditions contained in this Facility Letter and the following Schedules.

Signed for and on behalf of the Borrower

Authorised signatory

Authorised signatory

Date

Schedule 1 – Conditions Precedent

- 1 A copy of this Facility Letter signed by duly authorised officials accepting on behalf of the Borrower or the terms and conditions set out herein;
 - 2 A Bank Mandate duly completed by or on behalf of the Borrower, together with such other documents as the Bank shall require to complete its account opening formalities and to ensure compliance with money laundering obligations;
 - 3 Such form of mandate or authority as the officers of the Borrower may be empowered to issue to bankers concerning the negotiation of any money market utilisation under this Facility Letter on behalf of the Borrower and to sign and/or endorse any documents required under or in connection with this Facility Letter on behalf of the Borrower;
 - 4 A copy of the Borrower's Certificate of Incorporation;
 - 5 A copy certified as true and accurate by a Director or the Secretary of the Borrower of a resolution authorising the appropriate officials to act on behalf of and to bind the Borrower in the acceptance of the terms and conditions of this Facility Letter and the execution of this Facility Letter any other necessary supporting documents ancillary thereto; and
 - 6 The Bank's Fees then due.
-

Schedule 2 – Definitions and Interpretation

"**Administration Fee**" means an administration fee of such amount or administration fees of such amounts as shall be determined by the Bank in its absolute discretion from time to time to fully compensate the Bank for the additional costs incurred or likely to be incurred by it in the operation and monitoring of the Facility. Such fee or fees will be payable on the Bank's first demand.

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Bank Rate of Exchange**" means the Bank's rate of exchange for the purchase of the relevant foreign currency with Sterling, or as the case may be, the purchase of Sterling with the relevant foreign currency, calculated in accordance with the Bank's operational and administrative processes at the time the rate is required to be calculated.

"**Bank's Fees**" means the Bank's fees set out in Clause 1.1.

"**Break Costs**" means the amount (if any) by which:

- (a) the interest which the Bank should have received for the period from the date of receipt of all or any part of a Drawing or any unpaid sum to the last day of the current fixed rate period in respect of that Drawing or unpaid sum, had the principal amount or unpaid sum received been paid on the Maturity Date;

exceeds:

- (b) the amount which that Bank would be able to obtain by placing an amount equal to the principal amount or unpaid sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the relevant Maturity Date

and the provisions of this definition shall apply to each successive interest period for any unpaid amount or unpaid Drawing.

"**Breakage Fee**" means the Bank's breakage administration fee detailed in Clause 1.1.

"**Business Day**" means a day (other than a Saturday or Sunday) when the branch of the Bank at which the Borrower's account is located is open for business.

"**Default Rate**" means the aggregate of (i) the Bank's default interest margin in force from time to time, currently 2% per annum and (ii) the cost to the Bank of funding that sum during that period by whatever means it considers appropriate.

"**Financial Statements**" means audited annual profit and loss account, balance sheet and cash flow statement for each financial year (consolidated for each financial year during which any relevant corporate body has a subsidiary) together with related directors' or members' reports (as appropriate) and auditors' reports and the notes attached thereto.

"**Holding Company**" means, in relation to a person, any other person in respect of which it is a Subsidiary.

"**Limit**" means the amount of the Facility set out in Clause 1.1.

"**Maturity Date**" means the agreed date for repayment of each Drawing.

"**Quarter Day**" means the Business Day falling on, or, if such day is not a Business Day the Business Day immediately before, each of 31st March, 30th June, 30th September or 31st December each year or any other quarter day that the Bank may advise the Borrower in replacement therefor from time to time as a consequence of a change in the Bank's internal accounting policies.

"Sterling" and the sign "£" mean the lawful currency of the United Kingdom.

"Subsidiary" means a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

Interpretation

Any reference in this Facility Letter to:

- (a) statutes, statutory provisions and other legislation shall include all amendments, substitutions, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant legislation.
- (b) "**including**" shall not be construed as limiting the generality of the words preceding it;
- (c) any clause, paragraph or schedule shall be construed as a reference to the clauses in this Facility Letter, the schedules to this Facility Letter and the paragraphs in such schedules;
- (d) the singular shall include the plural and vice versa and words denoting any gender shall include all genders and if any party to this Facility Letter constitutes more than one person all covenants, conditions and obligations shall be deemed to be given by all such parties on a joint and several basis unless this Facility Letter specifically provides otherwise;
- (e) this Facility Letter and to any provisions of it or to any other document referred to in this Facility Letter shall be construed as references to it in force for the time being and as amended, varied, supplemented, restated, substituted or novated from time to time;
- (f) a person is to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity;
- (g) any person is to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect;
- (h) any word or phrase includes all derivations thereof;
- (i) a matter being in the opinion of the Bank or at the Bank's discretion shall be in the sole opinion of the Bank taking into consideration the Bank's interests hereunder and in the case of the Bank's discretion it shall be at the Bank's sole unfettered discretion without taking into consideration other party's interests.

Clause headings are for ease of reference only and are not to affect the interpretation of this Facility Letter.

Resolution re Facility Letter

Extract from the Minutes of a Meeting of the Directors

of Western Power Distribution (South West) plc (the 'Company')

"After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business the Company agreed to enter into the Facility Letter in the form now produced (the "Letter").

It was resolved that the Letter be executed for and on behalf of the Company either by a Director and its Secretary, or by two Directors.

I hereby certify that the foregoing is a true extract from the Minutes of a Meeting of the Directors at which (all appropriate interests having been declared) a quorum entitled to vote was present duly held on the day of 2018 and that a true copy of the Letter has been retained by the Company.

Secretary

AMENDMENT NO. 6

TO

PPL SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WHEREAS, PPL Services Corporation ("PPL") adopted the PPL Supplemental Executive Retirement Plan (the "Plan"), effective July 1, 2000, for certain of its employees; and

WHEREAS, the Plan was amended and restated effective July 1, 2003, and subsequently amended by Amendment No. 1, 2, 3, 4 and 5; and

WHEREAS, PPL desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective December 31, 2017, the following sections of Article 2 are amended to read as follows:

ARTICLE II **DEFINITIONS**

- (h) **"CLC"** shall mean the Corporate Leadership Council of PPL Corporation.
 - (i) **"Early Retirement Reduction Factor"** means the percentage that appears adjacent to the Participant's age below determined under the appropriate column.
 - (1) Column (1) shall apply to any Retiree unless Column (3) applies.
 - (2) Column (2) shall apply to any Terminated Vested Participant unless Column (3) applies.
 - (3) Column (3) shall apply only to the Chief Executive Officer of PPL Corporation.
-

Percentage of Benefit Received

Age When Benefits Start	(1)	(2)	(3)
	<u>Retiree</u>	<u>Terminated Vested</u>	<u>CEO Retiree</u>
62	100	100	100
61	100	100	95
60	100	100	90
59	95	90	85
58	90	80	80
57	85	70	75
56	80	60	70
55	75	50	65
54	70	N/A	N/A
53	65	N/A	N/A
52	60	N/A	N/A
51	55	N/A	N/A
50	50	N/A	N/A
49 or younger	N/A	N/A	N/A

(j) **“Good Reason”** shall mean “Good Reason” or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of PPL or an Affiliated Company, or, if no such agreement containing a definition of “Good Reason” is then in effect or if such term is not defined therein, “Good Reason” shall mean without the Participant’s consent, (i) a change caused by PPL or an Affiliated Company in the Participant’s duties and responsibilities which is materially inconsistent with the Participant’s position at the applicable entity that is a member of the Affiliated Companies, (ii) a material reduction in the Participant’s annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Affiliated Companies generally), or (iii) a relocation of the Participant’s current principle place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have “Good Reason” to terminate employment following the applicable entity’s failure to remedy the act which is alleged to constitute “Good Reason” within thirty (30) days following such entity’s receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(k) **“Participant”** means

- (1) any elected officer or other key employee of PPL or of a Participating Company who is hired prior to January 1, 2012, is designated as eligible in a resolution adopted by the board of directors of such Participating Company, and is approved for participation in this Plan by the CLC.
 - (2) any individual formerly described in Paragraph (1) who has not yet had a Termination of Employment, or any individual formerly described in Paragraph (1) who has had a Termination of Employment and is entitled to receive benefits under Article 3 of this Plan. All Participants of this Plan are listed in Appendix A.
 - (l) **"Participating Company"** means PPL Services Corporation, PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.), PPL EnergyPlus, LLC (prior to February 14, 2000, PP&L EnergyPlus Co., LLC), PPL Global, LLC, PPL Montana, LLC and each other Affiliated Company that is designated by the CLC to adopt this Plan by action of its board of directors or managers.
 - (m) **"Plan"** means this Supplemental Executive Retirement Plan, as amended from time to time.
 - (n) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).
 - (o) **"Retiree"** means a Participant except the Chief Executive Officer of PPL Corporation who has a Termination of Employment after:
 - (1) attaining age 55 and completing at least 10 Years of Service, or
 - (2) attaining age 60.For the Chief Executive Officer of PPL Corporation, "Retiree" means the Participant has a Termination of Employment after attaining age 55 and completing at least 10 years of Service or attaining age 62.
 - (p) **"Retirement Plan"** means the PPL Retirement Plan, as amended from time to time.
 - (q) **"Section 409A"** means Section 409A of the Internal Revenue Code of 1986, as amended, and the final Treasury Regulations issued thereunder.
 - (r) **"Supplemental Final Average Earnings"** means the following:
-

- (1) Supplemental Final Average Earnings means twelve times the average of a Participant's "compensation" as defined in Paragraphs (A) through (B) below, from PPL and/or an Affiliated Company, for the 60 highest full months in the final 120 (or fewer) full consecutive months during which he is employed by PPL and/or an Affiliated Company. For this purpose, non-consecutive months interrupted by periods in which the Participant receives no "compensation" shall be treated as consecutive. For purposes of this Section, "compensation" shall include the following:
 - (A) the Participant's base salary from PPL and/or any Affiliated Company prior to any deferrals to the Officers Deferred Compensation Plan or any other nonqualified deferred compensation plan of an Affiliated Company or any Internal Revenue Code section 401(k) plan by which Participant is covered, plus
 - (B) the value of any cash grants attributable to any month used in the average, awarded to Participant pursuant to the executive incentive awards program initially approved by the Board on October 25, 1989 or any similar program maintained by an Affiliated Company. For the final calendar year of employment, "Compensation" shall include an amount equal to the value of any cash grant that would have been paid for service in the final calendar year of employment, as if 100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12.
 - (2) For the purposes of determining the Participant's "compensation" under Subsection (1) of this definition, the CLC will determine the amount of any cash grant awarded to the Participant under any incentive awards program, and prorate such amount over the year for which the award was granted. Notwithstanding the foregoing, if a Participant transfers from a Participating Company to an Affiliated Company that is not a Participating Company after becoming a Participant, earnings with the Affiliated Company after the date of such transfer (or for the duration of each such transfer if the Participant transfers more than once) shall not count in the Participant's Supplemental Final Average Earnings.
- (s) **"Terminated Vested Participant"** means a Participant except the Chief Executive Officer of PPL Corporation:
- (1) who has a Termination of Employment after attaining age 50 but not age 55, and completing at least 10 Years of Service.

(t) **“Termination of Employment”** means the Participant’s separation from service (as such term is defined in Section 409A) from PPL and all Affiliated Companies.

II. Except as provided for in this Amendment No. 6, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 6 is executed this ____ day of _____, 2018.

PPL SERVICES CORPORATION

By:

Joanne H. Raphael
Senior Vice President, General Counsel
and Corporate Secretary

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Three Months Ended March 31,		Years Ended December 31,			
	2018	2017	2016	2015 (a)	2014 (a)	2013 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 569	\$ 1,912	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	—	—
	<u>569</u>	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
Total fixed charges as below	245	927	917	1,054	1,095	1,096
Less:						
Capitalized interest	1	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>244</u>	<u>923</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>
Total earnings	<u>\$ 813</u>	<u>\$ 2,836</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 242	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	3	15	17	16	22	38
Total fixed charges (c)	<u>\$ 245</u>	<u>\$ 927</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>
Ratio of earnings to fixed charges (d)	<u>3.3</u>	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Three Months	Years Ended December 31,				
	Ended March 31,	2017	2016	2015	2014	2013
	2018					
Earnings, as defined:						
Income Before Income Taxes	\$ 197	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	40	153	141	139	131	117
Total earnings	<u>\$ 237</u>	<u>\$ 728</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 39	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	1	4	4	4	4	4
Total fixed charges (b)	<u>\$ 40</u>	<u>\$ 153</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>
Ratio of earnings to fixed charges (c)	<u>5.9</u>	<u>4.8</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL Electric does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months	Years Ended December 31,				
	Ended March 31, 2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 181	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>181</u>	<u>692</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>
Total fixed charges as below	<u>57</u>	<u>224</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>
Total earnings	<u>\$ 238</u>	<u>\$ 916</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 55	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	2	9	9	8	6	6
Total fixed charges	<u>\$ 57</u>	<u>\$ 224</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>
Ratio of earnings to fixed charges	<u>4.2</u>	<u>4.1</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>

- (a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.
(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months Ended March 31,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 93	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	19	76	76	61	51	36
Total earnings	\$ 112	\$ 420	\$ 405	\$ 360	\$ 323	\$ 293
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 18	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	1	5	5	4	2	2
Total fixed charges	\$ 19	\$ 76	\$ 76	\$ 61	\$ 51	\$ 36
Ratio of earnings to fixed charges	5.9	5.5	5.3	5.9	6.3	8.1

- (a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.
(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months Ended March 31,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 111	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>111</u>	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>26</u>	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 137</u>	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 25	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	<u>1</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 26</u>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>5.3</u>	<u>5.2</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Vincent Sorgi

Vincent Sorgi
 Senior Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Morningstar[®] Document ResearchSM

FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: August 07, 2018 (period: June 30, 2018)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	[X]	[]	[]	[]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]	[]
Kentucky Utilities Company	[]	[]	[X]	[]	[]

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <u> </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u> </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u> </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u> </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u> </u>	No <u>X</u>

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 699,570,660 shares outstanding at July 31, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 2018.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018.

This document is available free of charge at the Investors section of PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

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**PPL CORPORATION
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2018

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' financial statements in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, an indirect U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

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WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2017 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2017.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Adjusted Gross Margins - a non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

Advanced Metering System - meters and meter-reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

CPIH - Consumer Price Index including owner-occupiers' housing costs. An aggregate measure of changes in the cost of living in the U.K., including a measure of owner-occupiers' housing costs.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

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DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

DUoS - Distribution Use of System, the charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

HB 487 - House Bill 487. Comprehensive Kentucky state tax legislation enacted on April 27, 2018.

IBEW - International Brotherhood of Electrical Workers.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

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MPR - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users. On April 30, 2018, Ofgem decided not to engage in a mid-period review of the RIIO-ED1 price-control period.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piquette, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been and continue to be based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

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RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501(c)(9) used by employers to fund and pay eligible medical, life and similar benefits.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2017 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal, or U.K. tax laws or regulations, including the TCJA;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

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New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 1,848	\$ 1,725	\$ 3,974	\$ 3,676
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	148	136	389	351
Other operation and maintenance	506	432	974	902
Depreciation	273	246	542	488
Taxes, other than income	74	70	157	145
Total Operating Expenses	<u>1,190</u>	<u>1,067</u>	<u>2,465</u>	<u>2,260</u>
Operating Income	658	658	1,509	1,416
Other Income (Expense) - net	234	(68)	191	(77)
Interest Expense	235	222	474	439
Income Before Income Taxes	657	368	1,226	900
Income Taxes	142	76	259	205
Net Income	<u>\$ 515</u>	<u>\$ 292</u>	<u>\$ 967</u>	<u>\$ 695</u>
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.74	\$ 0.43	\$ 1.39	\$ 1.02
Diluted	\$ 0.73	\$ 0.43	\$ 1.38	\$ 1.01
Dividends Declared Per Share of Common Stock	\$ 0.41	\$ 0.395	\$ 0.82	\$ 0.79
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	699,006	683,841	696,772	682,370
Diluted	700,976	686,351	698,161	684,725

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 515	\$ 292	\$ 967	\$ 695
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$2), \$0, (\$2), (\$1)	(250)	231	(134)	207
Qualifying derivatives, net of tax of (\$4), \$5, \$0, \$7	19	(24)	(1)	(30)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	(1)	—	(1)	—
Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7	—	(11)	(1)	(11)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$3, (\$7), \$1, (\$7)	(19)	25	(7)	24
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	1	—	1
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of (\$9), (\$9), (\$18), (\$18)	34	31	70	63
Total other comprehensive income (loss)	(216)	254	(73)	255
Comprehensive income	\$ 299	\$ 546	\$ 894	\$ 950

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 967	\$ 695
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	542	488
Amortization	34	45
Defined benefit plans - (income)	(101)	(45)
Deferred income taxes and investment tax credits	171	201
Unrealized (gains) losses on derivatives, and other hedging activities	(91)	135
Stock-based compensation expense	16	22
Other	(9)	(5)
Change in current assets and current liabilities		
Accounts receivable	46	26
Accounts payable	(90)	(92)
Unbilled revenues	91	70
Fuel, materials and supplies	32	42
Prepayments	(60)	(66)
Taxes payable	28	(27)
Regulatory assets and liabilities, net	42	(19)
Accrued interest	(79)	(77)
Other current liabilities	(47)	(52)
Other	(16)	13
Other operating activities		
Defined benefit plans - funding	(206)	(552)
Proceeds from transfer of excess benefit plan funds	65	—
Other assets	(67)	(1)
Other liabilities	57	(11)
Net cash provided by operating activities	<u>1,325</u>	<u>790</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,527)	(1,373)
Purchase of available-for-sale securities	(65)	—
Other investing activities	(57)	(12)
Net cash used in investing activities	<u>(1,649)</u>	<u>(1,385)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	584	594
Retirement of long-term debt	(250)	(60)
Issuance of common stock	147	177
Payment of common stock dividends	(558)	(529)
Net increase in short-term debt	788	554
Other financing activities	(16)	(25)
Net cash provided by financing activities	<u>695</u>	<u>711</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(7)	7
Net Increase in Cash, Cash Equivalents and Restricted Cash	<u>364</u>	<u>123</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	367
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 875</u>	<u>\$ 490</u>

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 329	\$ 284
Accrued expenditures for intangible assets at June 30,	\$ 59	\$ 56

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 852	\$ 485
Accounts receivable (less reserve: 2018, \$55; 2017, \$51)		
Customer	675	681
Other	66	100
Unbilled revenues	453	543
Fuel, materials and supplies	288	320
Prepayments	126	66
Price risk management assets	78	49
Other current assets	62	50
Total Current Assets	2,600	2,294
Property, Plant and Equipment		
Regulated utility plant	38,999	38,228
Less: accumulated depreciation - regulated utility plant	7,083	6,785
Regulated utility plant, net	31,916	31,443
Non-regulated property, plant and equipment	370	384
Less: accumulated depreciation - non-regulated property, plant and equipment	108	110
Non-regulated property, plant and equipment, net	262	274
Construction work in progress	1,645	1,375
Property, Plant and Equipment, net	33,823	33,092
Other Noncurrent Assets		
Regulatory assets	1,530	1,504
Goodwill	3,308	3,258
Other intangibles	694	697
Pension benefit asset	498	284
Price risk management assets	185	215
Other noncurrent assets	192	135
Total Other Noncurrent Assets	6,407	6,093
Total Assets	\$ 42,830	\$ 41,479

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,864	\$ 1,080
Long-term debt due within one year	203	348
Accounts payable	804	924
Taxes	132	105
Interest	203	282
Dividends	287	273
Customer deposits	271	292
Regulatory liabilities	137	95
Other current liabilities	547	624
Total Current Liabilities	4,448	4,023
Long-term Debt	20,217	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,632	2,462
Investment tax credits	128	129
Accrued pension obligations	665	800
Asset retirement obligations	297	312
Regulatory liabilities	2,747	2,704
Other deferred credits and noncurrent liabilities	456	441
Total Deferred Credits and Other Noncurrent Liabilities	6,925	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,462	10,305
Earnings reinvested	4,266	3,871
Accumulated other comprehensive loss	(3,495)	(3,422)
Total Equity	11,240	10,761
Total Liabilities and Equity	\$ 42,830	\$ 41,479

(a) 1,560,000 shares authorized; 699,128 and 693,398 shares issued and outstanding at June 30, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	5,730		163			163
Stock-based compensation			(6)			(6)
Net income				967		967
Dividends and dividend equivalents				(572)		(572)
Other comprehensive income (loss)					(73)	(73)
June 30, 2018	<u>699,128</u>	<u>\$ 7</u>	<u>\$ 10,462</u>	<u>\$ 4,266</u>	<u>\$ (3,495)</u>	<u>\$ 11,240</u>
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20)			(20)
Net income				695		695
Dividends and dividend equivalents				(541)		(541)
Other comprehensive income (loss)					255	255
June 30, 2017	<u>685,473</u>	<u>\$ 7</u>	<u>\$ 10,023</u>	<u>\$ 3,983</u>	<u>\$ (3,523)</u>	<u>\$ 10,490</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareholders' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 517	\$ 500	\$ 1,156	\$ 1,073
Operating Expenses				
Operation				
Energy purchases	115	107	276	253
Other operation and maintenance	159	139	292	302
Depreciation	88	76	173	151
Taxes, other than income	22	23	54	52
Total Operating Expenses	384	345	795	758
Operating Income	133	155	361	315
Other Income (Expense) - net	7	4	13	4
Interest Income from Affiliate	1	1	1	1
Interest Expense	39	36	76	69
Income Before Income Taxes	102	124	299	251
Income Taxes	27	47	76	95
Net Income (a)	\$ 75	\$ 77	\$ 223	\$ 156

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 223	\$ 156
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	173	151
Amortization	11	15
Defined benefit plans - expense	—	7
Deferred income taxes and investment tax credits	53	84
Other	(9)	(4)
Change in current assets and current liabilities		
Accounts receivable	37	13
Accounts payable	(60)	(59)
Unbilled revenues	30	17
Prepayments	(47)	(52)
Regulatory assets and liabilities, net	(27)	(12)
Taxes payable	(1)	(4)
Other	1	(6)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(41)	(4)
Other liabilities	49	1
Net cash provided by operating activities	<u>364</u>	<u>279</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(518)	(550)
Net decrease in notes receivable from affiliate	—	(270)
Other investing activities	(3)	(4)
Net cash used in investing activities	<u>(521)</u>	<u>(824)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	398	470
Contributions from parent	425	575
Payment of common stock dividends to parent	(222)	(154)
Net decrease in short-term debt	—	(295)
Other financing activities	(4)	(5)
Net cash provided by financing activities	<u>597</u>	<u>591</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash	440	46
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	<u>51</u>	<u>15</u>
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 491</u>	<u>\$ 61</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 180	\$ 157

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 489	\$ 49
Accounts receivable (less reserve: 2018, \$27; 2017, \$24)		
Customer	289	279
Other	23	71
Accounts receivable from affiliates	11	—
Unbilled revenues	97	127
Materials and supplies	28	34
Prepayments	53	6
Regulatory assets	16	16
Other current assets	13	6
Total Current Assets	1,019	588
Property, Plant and Equipment		
Regulated utility plant	11,140	10,785
Less: accumulated depreciation - regulated utility plant	2,815	2,778
Regulated utility plant, net	8,325	8,007
Construction work in progress	586	508
Property, Plant and Equipment, net	8,911	8,515
Other Noncurrent Assets		
Regulatory assets	737	709
Intangibles	260	259
Other noncurrent assets	56	11
Total Other Noncurrent Assets	1,053	979
Total Assets	\$ 10,983	\$ 10,082

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 374	\$ 386
Accounts payable to affiliates	29	31
Taxes	7	8
Interest	37	36
Regulatory liabilities	66	86
Other current liabilities	99	98
Total Current Liabilities	<u>612</u>	<u>645</u>
Long-term Debt	<u>3,693</u>	<u>3,298</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,225	1,154
Accrued pension obligations	212	246
Regulatory liabilities	692	668
Other deferred credits and noncurrent liabilities	131	79
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,260</u>	<u>2,147</u>
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,154	2,729
Earnings reinvested	900	899
Total Equity	<u>4,418</u>	<u>3,992</u>
Total Liabilities and Equity	<u>\$ 10,983</u>	<u>\$ 10,082</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				223	223
Capital contributions from PPL			425		425
Dividends declared on common stock				(222)	(222)
June 30, 2018	66,368	\$ 364	\$ 3,154	\$ 900	\$ 4,418
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154)	(154)
June 30, 2017	66,368	\$ 364	\$ 2,729	\$ 875	\$ 3,968

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 743	\$ 723	\$ 1,615	\$ 1,532
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	33	29	113	98
Other operation and maintenance	211	192	416	397
Depreciation	118	105	235	210
Taxes, other than income	18	16	35	32
Total Operating Expenses	569	525	1,202	1,111
Operating Income	174	198	413	421
Other Income (Expense) - net	1	(4)	(2)	(8)
Interest Expense	52	50	102	99
Interest Expense with Affiliate	6	4	11	8
Income Before Income Taxes	117	140	298	306
Income Taxes	31	53	70	116
Net Income	\$ 86	\$ 87	\$ 228	\$ 190

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 86	\$ 87	\$ 228	\$ 190
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7	1	(11)	—	(11)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	—	1
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of \$0, (\$1), (\$1), (\$2)	(1)	1	1	2
Total other comprehensive income (loss)	1	(9)	2	(7)
Comprehensive income	\$ 87	\$ 78	\$ 230	\$ 183

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 228	\$ 190
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	235	210
Amortization	9	14
Defined benefit plans - expense	8	12
Deferred income taxes and investment tax credits	30	91
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	16	13
Accounts payable	(10)	(28)
Accounts payable to affiliates	1	—
Unbilled revenues	40	23
Fuel, materials and supplies	26	41
Regulatory assets and liabilities, net	69	(7)
Taxes payable	(25)	3
Other	(40)	(14)
Other operating activities		
Defined benefit plans - funding	(122)	(29)
Expenditures for asset retirement obligations	(26)	(12)
Other assets	(1)	(2)
Other liabilities	3	6
Net cash provided by operating activities	<u>440</u>	<u>511</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(564)	(355)
Net cash used in investing activities	<u>(564)</u>	<u>(355)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(126)	(4)
Issuance of long-term debt with affiliate	250	—
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Distributions to member	(161)	(218)
Net increase in short-term debt	72	73
Other financing activities	(2)	(1)
Net cash provided by (used in) financing activities	<u>133</u>	<u>(150)</u>
Net Increase in Cash and Cash Equivalents	9	6
Cash and Cash Equivalents at Beginning of Period	30	13
Cash and Cash Equivalents at End of Period	<u>\$ 39</u>	<u>\$ 19</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 112	\$ 83
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 39	\$ 30
Accounts receivable (less reserve: 2018, \$26; 2017, \$25)		
Customer	229	246
Other	45	44
Unbilled revenues	163	203
Fuel, materials and supplies	229	254
Prepayments	31	25
Regulatory assets	11	18
Other current assets	6	8
Total Current Assets	<u>753</u>	<u>828</u>
Property, Plant and Equipment		
Regulated utility plant	13,346	13,187
Less: accumulated depreciation - regulated utility plant	1,955	1,785
Regulated utility plant, net	<u>11,391</u>	<u>11,402</u>
Construction work in progress	880	627
Property, Plant and Equipment, net	<u>12,271</u>	<u>12,029</u>
Other Noncurrent Assets		
Regulatory assets	793	795
Goodwill	996	996
Other intangibles	82	86
Other noncurrent assets	75	68
Total Other Noncurrent Assets	<u>1,946</u>	<u>1,945</u>
Total Assets	<u>\$ 14,970</u>	<u>\$ 14,802</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 316	\$ 244
Long-term debt due within one year	203	98
Notes payable with affiliates	99	225
Accounts payable	266	338
Accounts payable to affiliates	8	7
Customer deposits	59	58
Taxes	41	66
Price risk management liabilities	4	4
Regulatory liabilities	71	9
Interest	32	32
Asset retirement obligations	84	85
Other current liabilities	124	161
Total Current Liabilities	1,307	1,327
Long-term Debt		
Long-term debt	4,657	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	5,307	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	878	866
Investment tax credits	127	129
Price risk management liabilities	17	22
Accrued pension obligations	259	365
Asset retirement obligations	248	271
Regulatory liabilities	2,055	2,036
Other deferred credits and noncurrent liabilities	140	162
Total Deferred Credits and Other Noncurrent Liabilities	3,724	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity		
	4,632	4,563
Total Liabilities and Equity	\$ 14,970	\$ 14,802

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2017	\$ 4,563
Net income	228
Distributions to member	(161)
Other comprehensive income	2
June 30, 2018	<u>\$ 4,632</u>
December 31, 2016	\$ 4,667
Net income	190
Distributions to member	(218)
Other comprehensive income	(7)
June 30, 2017	<u>\$ 4,632</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	\$ 331	\$ 320	\$ 738	\$ 694
Electric revenue from affiliate	4	4	16	21
Total Operating Revenues	335	324	754	715
Operating Expenses				
Operation				
Fuel	72	69	151	149
Energy purchases	28	25	104	89
Energy purchases from affiliate	2	3	8	5
Other operation and maintenance	93	86	182	171
Depreciation	49	45	97	89
Taxes, other than income	9	9	18	17
Total Operating Expenses	253	237	560	520
Operating Income	82	87	194	195
Other Income (Expense) - net	(1)	1	(2)	(3)
Interest Expense	19	19	37	36
Income Before Income Taxes	62	69	155	156
Income Taxes	12	27	33	60
Net Income (a)	<u>\$ 50</u>	<u>\$ 42</u>	<u>\$ 122</u>	<u>\$ 96</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 122	\$ 96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	97	89
Amortization	7	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	18	57
Change in current assets and current liabilities		
Accounts receivable	11	9
Accounts receivable from affiliates	6	11
Accounts payable	(12)	(17)
Accounts payable to affiliates	(3)	(3)
Unbilled revenues	24	14
Fuel, materials and supplies	31	33
Regulatory assets and liabilities, net	32	(3)
Taxes payable	(2)	(23)
Other	(7)	—
Other operating activities		
Defined benefit plans - funding	(57)	(3)
Expenditures for asset retirement obligations	(10)	(7)
Other liabilities	(4)	1
Net cash provided by operating activities	<u>255</u>	<u>264</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(296)	(177)
Net cash used in investing activities	<u>(296)</u>	<u>(177)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Net increase (decrease) in short-term debt	(16)	38
Payment of common stock dividends to parent	(81)	(122)
Contributions from parent	43	—
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>45</u>	<u>(85)</u>
Net Increase in Cash and Cash Equivalents	4	2
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	<u>\$ 19</u>	<u>\$ 7</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 57	\$ 40

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 19	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	104	116
Other	14	13
Unbilled revenues	67	91
Accounts receivable from affiliates	18	24
Fuel, materials and supplies	100	131
Prepayments	16	11
Regulatory assets	11	12
Other current assets	2	3
Total Current Assets	351	416
Property, Plant and Equipment		
Regulated utility plant	5,653	5,587
Less: accumulated depreciation - regulated utility plant	678	614
Regulated utility plant, net	4,975	4,973
Construction work in progress	455	305
Property, Plant and Equipment, net	5,430	5,278
Other Noncurrent Assets		
Regulatory assets	406	411
Goodwill	389	389
Other intangibles	50	53
Other noncurrent assets	23	12
Total Other Noncurrent Assets	868	865
Total Assets	\$ 6,649	\$ 6,559

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 183	\$ 199
Long-term debt due within one year	194	98
Accounts payable	132	179
Accounts payable to affiliates	21	23
Customer deposits	28	27
Taxes	23	25
Price risk management liabilities	4	4
Regulatory liabilities	34	3
Interest	11	11
Asset retirement obligations	17	24
Other current liabilities	47	52
Total Current Liabilities	694	645
Long-term Debt	1,614	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	581	572
Investment tax credits	34	35
Price risk management liabilities	17	22
Accrued pension obligations	—	45
Asset retirement obligations	95	97
Regulatory liabilities	922	919
Other deferred credits and noncurrent liabilities	81	86
Total Deferred Credits and Other Noncurrent Liabilities	1,730	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,755	1,712
Earnings reinvested	432	391
Total Equity	2,611	2,527
Total Liabilities and Equity	\$ 6,649	\$ 6,559

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				122	122
Capital contributions from LKE			43		43
Cash dividends declared on common stock				(81)	(81)
June 30, 2018	21,294	\$ 424	\$ 1,755	\$ 432	\$ 2,611
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				96	96
Cash dividends declared on common stock				(122)	(122)
June 30, 2017	21,294	\$ 424	\$ 1,682	\$ 344	\$ 2,450

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	\$ 412	\$ 403	\$ 877	\$ 838
Electric revenue from affiliate	2	3	8	5
Total Operating Revenues	<u>414</u>	<u>406</u>	<u>885</u>	<u>843</u>
Operating Expenses				
Operation				
Fuel	117	114	252	225
Energy purchases	5	4	9	9
Energy purchases from affiliate	4	4	16	21
Other operation and maintenance	112	100	217	208
Depreciation	70	61	138	121
Taxes, other than income	9	7	17	15
Total Operating Expenses	<u>317</u>	<u>290</u>	<u>649</u>	<u>599</u>
Operating Income	97	116	236	244
Other Income (Expense) - net	3	(2)	—	(4)
Interest Expense	<u>25</u>	<u>24</u>	<u>50</u>	<u>48</u>
Income Before Income Taxes	75	90	186	192
Income Taxes	<u>14</u>	<u>34</u>	<u>38</u>	<u>73</u>
Net Income (a)	<u>\$ 61</u>	<u>\$ 56</u>	<u>\$ 148</u>	<u>\$ 119</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 148	\$ 119
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	138	121
Amortization	2	6
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	9	70
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	4	5
Accounts payable	11	(1)
Accounts payable to affiliates	(12)	(15)
Unbilled revenues	16	9
Fuel, materials and supplies	(5)	8
Regulatory assets and liabilities, net	37	(4)
Taxes payable	4	(29)
Other	(11)	(9)
Other operating activities		
Defined benefit plans - funding	(52)	(21)
Expenditures for asset retirement obligations	(16)	(5)
Other assets	(1)	(3)
Other liabilities	3	4
Net cash provided by operating activities	<u>274</u>	<u>257</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(266)	(177)
Net cash used in investing activities	<u>(266)</u>	<u>(177)</u>
Cash Flows from Financing Activities		
Net increase in short-term debt	88	35
Payment of common stock dividends to parent	(136)	(110)
Contributions from parent	45	—
Net cash used in financing activities	<u>(3)</u>	<u>(75)</u>
Net Increase in Cash and Cash Equivalents	5	5
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	<u>\$ 20</u>	<u>\$ 12</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 55	\$ 43

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 20	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	125	130
Other	31	30
Unbilled revenues	96	112
Fuel, materials and supplies	129	123
Prepayments	15	14
Regulatory assets	—	6
Other current assets	4	5
Total Current Assets	420	435
Property, Plant and Equipment		
Regulated utility plant	7,683	7,592
Less: accumulated depreciation - regulated utility plant	1,275	1,170
Regulated utility plant, net	6,408	6,422
Construction work in progress	424	321
Property, Plant and Equipment, net	6,832	6,743
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	32	33
Other noncurrent assets	75	52
Total Other Noncurrent Assets	1,101	1,076
Total Assets	\$ 8,353	\$ 8,254

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 133	\$ 45
Long-term debt due within one year	9	—
Accounts payable	121	137
Accounts payable to affiliates	42	53
Customer deposits	31	31
Taxes	23	19
Regulatory liabilities	37	6
Interest	16	16
Asset retirement obligations	67	61
Other current liabilities	35	46
Total Current Liabilities	514	414
Long-term Debt	2,320	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	690	691
Investment tax credits	93	94
Accrued pension obligations	—	36
Asset retirement obligations	153	174
Regulatory liabilities	1,133	1,117
Other deferred credits and noncurrent liabilities	36	43
Total Deferred Credits and Other Noncurrent Liabilities	2,105	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	445	433
Total Equity	3,414	3,357
Total Liabilities and Equity	\$ 8,353	\$ 8,254

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2018 and December 31, 2017.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Capital contributions from LKE			45			45
Net income				148		148
Cash dividends declared on common stock				(136)		(136)
June 30, 2018	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,661</u>	<u>\$ 445</u>	<u>\$ —</u>	<u>\$ 3,414</u>
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				119		119
Cash dividends declared on common stock				(110)		(110)
Other comprehensive income (loss)					1	1
June 30, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 409</u>	<u>\$ —</u>	<u>\$ 3,333</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2017 is derived from that Registrant's 2017 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2017 Form 10-K. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Revenue from Contracts with Customers

Effective January 1, 2018, the Registrants adopted accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Registrants adopted this guidance using the modified retrospective transition method. No cumulative effect adjustment was required as of the January 1, 2018 adoption date.

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 4 for the required disclosures as a result of the adoption of this standard.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Registrants adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. Prospectively, the guidance limits the capitalization to the service cost component of net periodic benefit costs.

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For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the three and six months ended June 30, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were \$6 million (\$5 million after-tax or \$0.01 per share) and \$11 million (\$9 million after-tax or \$0.01 per share) for the three and six months ended June 30, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 on the Statements of Income as a result of the adoption.

	Three Months		Six Months	
	2018	2017	2018	2017
PPL	\$ 66	\$ 44	\$ 134	\$ 82
PPL Electric	1	1	3	—
LKE	—	—	2	(2)
LG&E	(2)	—	(1)	(2)
KU	1	—	2	(1)

PPL and PPL Electric elected to use the practical expedient that permits using the amounts disclosed in the defined benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements.

Presentation of Restricted Cash in the Statement of Cash Flows (PPL and PPL Electric)

Effective January 1, 2018, PPL and PPL Electric adopted accounting guidance that changes the cash flow statement presentation of restricted cash. Under the new guidance, amounts considered restricted cash are presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts on the Statements of Cash Flows. The guidance requires a reconciliation of the total cash, cash equivalents and restricted cash from the Statement of Cash Flows to amounts on the Balance Sheets and disclosure of the nature of the restrictions. PPL and PPL Electric have applied this guidance on a retrospective basis for all periods presented. The adoption of this guidance did not have a material impact on the Statements of Cash Flows.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets that sum to the total of the same amounts shown on the Statements of Cash Flows:

	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 852	\$ 485	\$ 489	\$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	20	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 875	\$ 511	\$ 491	\$ 51

(a) Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2017 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended June 30 are as follows:

	Three Months		Six Months	
	2018	2017	2018	2017
Operating Revenues from external customers				
U.K. Regulated	\$ 584	\$ 502	\$ 1,199	\$ 1,070
Kentucky Regulated	743	723	1,615	1,532
Pennsylvania Regulated	517	500	1,156	1,073
Corporate and Other	4	—	4	1
Total	\$ 1,848	\$ 1,725	\$ 3,974	\$ 3,676
Net Income				
U.K. Regulated (a)	\$ 394	\$ 148	\$ 591	\$ 434
Kentucky Regulated	77	79	210	174
Pennsylvania Regulated	75	77	223	156
Corporate and Other	(31)	(12)	(57)	(69)
Total	\$ 515	\$ 292	\$ 967	\$ 695

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 14 for additional information.

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	June 30, 2018	December 31, 2017
Assets		
U.K. Regulated (a)	\$ 16,839	\$ 16,813
Kentucky Regulated	14,636	14,468
Pennsylvania Regulated	10,995	10,082
Corporate and Other (b)	360	116
Total	\$ 42,830	\$ 41,479

(a) Includes \$12.6 billion and \$12.5 billion of net PP&E as of June 30, 2018 and December 31, 2017. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E, goodwill and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

U.K. Regulated Segment Revenue (PPL)

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

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DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD's DUoS contracts.

Pennsylvania Regulated Segment Revenue (*PPL and PPL Electric*)

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are typically due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric's retail account contracts.

Transmission Revenue

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

Kentucky Regulated Segment Revenue (*PPL, LKE, LG&E and KU*)

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers primarily from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled

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revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following tables reconcile "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the periods ended June 30, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 1,848	\$ 517	\$ 743	\$ 335	\$ 414
Revenues derived from:					
Alternative revenue programs (b)	9	—	9	6	3
Other (c)	(13)	(2)	(4)	(2)	(2)
Revenues from Contracts with Customers	\$ 1,844	\$ 515	\$ 748	\$ 339	\$ 415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 3,974	\$ 1,156	\$ 1,615	\$ 754	\$ 885
Revenues derived from:					
Alternative revenue programs (b)	41	2	39	20	19
Other (c)	(28)	(6)	(9)	(3)	(6)
Revenues from Contracts with Customers	\$ 3,987	\$ 1,152	\$ 1,645	\$ 771	\$ 898

- (a) PPL includes \$584 million and \$1,199 million for the three and six months ended June 30, 2018 of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 3 for additional information.
- (b) Alternative revenue programs for PPL Electric include the over/under-collection of its transmission formula rate. Alternative revenue programs for LKE, LG&E and KU include the over/under collection for the ECR and DSM programs as well as LG&E's over/under collection of its GLT program and KU's over/under collection of its generation formula rate. Over-collections of revenue are shown as positive amounts in the table above; under-collections are shown as negative amounts.
- (c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

As discussed in Note 2 in PPL's 2017 Form 10-K, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$414 million and \$101 million for the three months ended June 30, 2018 and \$946 million and \$206 million for the six months ended June 30, 2018.

The following tables show revenues from contracts with customers disaggregated by customer class for the periods ended June 30, 2018.

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	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 547	\$ —	\$ —	\$ —	\$ —
Residential	588	300	288	146	142
Commercial	296	89	207	107	100
Industrial	155	12	143	45	98
Other (b)	114	13	67	30	37
Wholesale - municipal	31	—	31	—	31
Wholesale - other (c)	12	—	12	11	7
Transmission	101	101	—	—	—
Revenues from Contracts with Customers	\$ 1,844	\$ 515	\$ 748	\$ 339	\$ 415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 1,131	\$ —	\$ —	\$ —	\$ —
Residential	1,392	708	684	343	341
Commercial	621	187	434	231	203
Industrial	310	25	285	89	196
Other (b)	220	26	135	61	74
Wholesale - municipal	61	—	61	—	61
Wholesale - other (c)	46	—	46	47	23
Transmission	206	206	—	—	—
Revenues from Contracts with Customers	\$ 3,987	\$ 1,152	\$ 1,645	\$ 771	\$ 898

(a) Represents customers of WPD.

(b) Primarily includes revenues from pole attachments, street lighting and other public authorities.

(c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable balances that were impaired for the periods ended June 30, 2018.

	Three Months	Six Months
PPL	\$ 3	\$ 13
PPL Electric	3	10
LKE	1	3
LG&E	—	1
KU	1	2

The following table shows the balances of contract liabilities resulting from contracts with customers.

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	\$ 29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities as of June 30, 2018	38	14	8	4	3

The following table shows the revenue recognized during the period ended June 30, 2018 that was included in the contract liability balance at December 31, 2017.

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	Six Months
PPL	\$ 18
PPL Electric	8
LKE	8
LG&E	4
KU	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as services are delivered in subsequent periods.

At June 30, 2018, PPL had \$70 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$50 million within the next 12 months.

5. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below. In 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds the forward sale price prescribed in the agreements.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2018	2017	2018	2017
Income (Numerator)				
Net income	\$ 515	\$ 292	\$ 967	\$ 695
Less amounts allocated to participating securities	—	—	1	1
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 515</u>	<u>\$ 292</u>	<u>\$ 966</u>	<u>\$ 694</u>
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	699,006	683,841	696,772	682,370
Add incremental non-participating securities:				
Share-based payment awards	173	2,510	491	2,355
Forward sale agreements	1,797	—	898	—
Weighted-average shares - Diluted EPS	<u>700,976</u>	<u>686,351</u>	<u>698,161</u>	<u>684,725</u>
Basic EPS				
Net Income available to PPL common shareowners	\$ 0.74	\$ 0.43	\$ 1.39	\$ 1.02
Diluted EPS				
Net Income available to PPL common shareowners	\$ 0.73	\$ 0.43	\$ 1.38	\$ 1.01

For the periods ended June 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

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	Three Months		Six Months	
	2018	2017	2018	2017
Stock-based compensation plans (a)	12	564	488	1,451
DRIP	526	369	1,011	814

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock units and conversion of stock units granted to directors.

See Note 8 for additional information on common stock issued under the ATM Program.

For the periods ended June 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Six Months	
	2018	2017	2018	2017
Stock options	441	696	336	696
Restricted stock units	23	—	21	—

6. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are as follows.

(PPL)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 138	\$ 129	\$ 257	\$ 315
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	10	25	23
Valuation allowance adjustments	5	—	12	5
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(6)	(40)	(13)	(88)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	—	(7)	1	(16)
Federal and state tax reserve adjustments	3	—	3	—
Impact of the U.K. Finance Acts	(2)	(6)	(3)	(9)
Depreciation and other items not normalized	(2)	(2)	(4)	(5)
Amortization of excess deferred income taxes (a)	(9)	—	(19)	—
Deferred tax impact of state tax reform (c)	9	—	9	—
Interest benefit on U.K. financing entities	(4)	(4)	(9)	(8)
Stock-based compensation	—	(4)	1	(7)
Other	—	—	(1)	(5)
Total increase (decrease)	4	(53)	2	(110)
Total income taxes	\$ 142	\$ 76	\$ 259	\$ 205

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) Lower income taxes in 2017 primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

(c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(PPL Electric)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 22	\$ 44	\$ 63	\$ 88
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	9	24	17
Depreciation and other items not normalized	(1)	(2)	(3)	(4)
Amortization of excess deferred income taxes (a)	(3)	—	(8)	—
Stock-based compensation	—	(3)	—	(5)
Other	1	(1)	—	(1)
Total increase (decrease)	5	3	13	7
Total income taxes	\$ 27	\$ 47	\$ 76	\$ 95

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(LKE)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 25	\$ 49	\$ 63	\$ 107
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	3	5	11	11
Deferred tax impact of state tax reform (c)	9	—	9	—
Amortization of excess deferred income taxes (a)	(6)	—	(11)	—
Other	—	(1)	(2)	(2)
Total increase (decrease)	6	4	7	9
Total income taxes	\$ 31	\$ 53	\$ 70	\$ 116

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(LG&E)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 13	\$ 24	\$ 33	\$ 55
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	6	6
Amortization of excess deferred income taxes (a)	(3)	—	(5)	—
Other	—	—	(1)	(1)
Total increase (decrease)	(1)	3	—	5
Total income taxes	\$ 12	\$ 27	\$ 33	\$ 60

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(KU)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 16	\$ 32	\$ 39	\$ 67
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	7	7
Amortization of excess deferred income taxes (a)	(3)	—	(6)	—
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	(2)	2	(1)	6
Total income taxes	\$ 14	\$ 34	\$ 38	\$ 73

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

Kentucky State Tax Reform (All Registrants)

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. LKE recognized a deferred tax charge of \$9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

U.S. Tax Reform (All Registrants)

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

7. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

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	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—
Smart meter rider	15	15	15	15
Plant outage costs	6	3	—	—
Gas supply clause	5	4	—	—
Other	1	1	1	1
Total current regulatory assets (a)	\$ 27	\$ 34	\$ 16	\$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 857	\$ 880	\$ 491	\$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs (b)	47	33	21	—
Unamortized loss on debt	49	54	25	29
Interest rate swaps	21	26	—	—
Terminated interest rate swaps	89	92	—	—
Accumulated cost of removal of utility plant	182	173	182	173
AROs	260	234	—	—
Act 129 compliance rider	15	—	15	—
Other	7	9	—	—
Total noncurrent regulatory assets	\$ 1,530	\$ 1,504	\$ 737	\$ 709
	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Liabilities:				
Generation supply charge	\$ 30	\$ 34	\$ 30	\$ 34
Transmission service charge	4	9	4	9
Environmental cost recovery	25	1	—	—
Universal service rider	20	26	20	26
Transmission formula rate	11	9	11	9
Fuel adjustment clause	5	3	—	—
TCJA customer refund (c)	33	—	—	—
Storm damage expense rider	1	8	1	8
Other	8	5	—	—
Total current regulatory liabilities	\$ 137	\$ 95	\$ 66	\$ 86
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ —	\$ —
Power purchase agreement - OVEC (d)	64	68	—	—
Net deferred taxes (e)	1,858	1,853	652	668
Defined benefit plans	31	27	—	—
Terminated interest rate swaps	72	74	—	—
TCJA customer refund (f)	37	—	37	—
Other	7	5	3	—
Total noncurrent regulatory liabilities	\$ 2,747	\$ 2,704	\$ 692	\$ 668

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	LKE		LG&E		KU	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:						
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—	—	6
Plant outage costs	6	3	6	3	—	—
Gas supply clause	5	4	5	4	—	—
Total current regulatory assets	\$ 11	\$ 18	\$ 11	\$ 12	\$ —	\$ 6
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 366	\$ 376	\$ 231	\$ 234	\$ 135	\$ 142
Storm costs	26	33	14	18	12	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	21	26	21	26	—	—
Terminated interest rate swaps	89	92	52	54	37	38
AROs	260	234	71	61	189	173
Other	7	9	2	2	5	7
Total noncurrent regulatory assets	\$ 793	\$ 795	\$ 406	\$ 411	\$ 387	\$ 384
	LKE		LG&E		KU	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Liabilities:						
Environmental cost recovery	\$ 25	\$ 1	\$ 14	\$ —	\$ 11	\$ 1
Fuel adjustment clause	5	3	1	—	4	3
Gas line tracker	2	3	2	3	—	—
TCJA customer refund (c)	33	—	15	—	18	—
Other	6	2	2	—	4	2
Total current regulatory liabilities	\$ 71	\$ 9	\$ 34	\$ 3	\$ 37	\$ 6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ 280	\$ 282	\$ 398	\$ 395
Power purchase agreement - OVEC (d)	64	68	44	47	20	21
Net deferred taxes (e)	1,206	1,185	561	552	645	633
Defined benefit plans	31	27	—	—	31	27
Terminated interest rate swaps	72	74	36	37	36	37
Other	4	5	1	1	3	4
Total noncurrent regulatory liabilities	\$ 2,055	\$ 2,036	\$ 922	\$ 919	\$ 1,133	\$ 1,117

- (a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.
- (b) Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.
- (c) Relates to estimated amounts owed to LG&E and KU customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018. Amounts owed will be distributed through the TCJA bill credit.
- (d) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.
- (e) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which reduced the U.S. federal corporate income tax rate effective January 1, 2018, requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017. LG&E and KU began distributing amounts through the TCJA bill credit effective April 1, 2018.
- (f) Relates to amounts owed to PPL Electric customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, for the period of January 1, 2018 through June 30, 2018 which is not yet reflected in customer rates. The distribution method back to customers of this liability must be proposed to the PUC at the earlier of May 2021 or PPL Electric's next rate case.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to implement Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service. A hearing on this matter was held July 24, 2018. LG&E and KU cannot predict the outcome of this proceeding.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

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LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's Louisville/Jefferson county customers in the franchise areas as a separate line item on their bill, the franchise fee will revert to zero. In August 2016, LG&E filed an application requesting the KPSC to review and rule upon the recoverability of the franchise fee.

On March 14, 2018, the KPSC issued an order authorizing the franchise fee to be recovered only from LG&E's Louisville/Jefferson County customers in the franchise area. As a result, the franchise fee will continue to be zero in accordance with the terms of the August 2016, 5-year gas franchise agreement.

(PPL and PPL Electric)

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018 Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's operating revenues of which \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate

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income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

Federal Matters

(PPL, LKE, LG&E and KU)

FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. ("MISO"), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E and KU's respective transmission system ownership ratio. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and six months ended June 30, 2018, PPL Electric purchased \$297 million and \$673 million of accounts receivable from alternate suppliers. During the three and six months ended June 30, 2017, PPL Electric purchased \$288 million and \$644 million of accounts receivable from alternate suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and act as a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement, which are reflected in "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

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	June 30, 2018					December 31, 2017		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2023	£ 210	£ 150	£ —	£ 60	£ 148	£ —	
Term Loan Facility (b)	Dec. 2018	130	130	—	—	—	—	
WPD (South West)								
Syndicated Credit Facility	July 2021	245	—	—	245	—	—	
WPD (East Midlands)								
Syndicated Credit Facility (c)	July 2021	300	99	—	201	180	—	
WPD (West Midlands)								
Syndicated Credit Facility (d)	July 2021	300	34	—	266	120	—	
Uncommitted Credit Facilities		130	—	4	126	—	4	
Total U.K. Credit Facilities (e)		£ 1,315	£ 413	£ 4	£ 898	£ 448	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2023	\$ 950	\$ —	\$ 950	\$ —	\$ —	\$ 230	
Syndicated Credit Facility	Nov. 2018	300	—	49	251	—	—	
Bilateral Credit Facility	Mar. 2019	100	—	20	80	—	18	
Total PPL Capital Funding Credit Facilities		\$ 1,350	\$ —	\$ 1,019	\$ 331	\$ —	\$ 248	
PPL Electric								
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2023	\$ 500	\$ —	\$ 183	\$ 317	\$ —	\$ 199	
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 183	\$ 317	\$ 100	\$ 199	
KU								
Syndicated Credit Facility	Jan. 2023	\$ 400	\$ —	\$ 133	\$ 267	\$ —	\$ 45	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 331	\$ 267	\$ —	\$ 243	

- (a) The amounts borrowed at June 30, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.81% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed.
- (b) The amount borrowed at June 30, 2018 was a GBP-denominated borrowing which equated to \$173 million and bore interest at 1.75%.
- (c) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$132 million and \$244 million and bore interest at 0.90% and 0.89%.
- (d) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$45 million and \$162 million and bore interest at 0.90% and 0.89%.
- (e) At June 30, 2018, the unused capacity under the U.K. credit facilities was \$1.2 billion.

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PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	June 30, 2018				December 31, 2017	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.42%	\$ 1,000	\$ 999	\$ 1	1.64%	\$ 230
PPL Electric		650	—	650		—
LG&E	2.33%	350	183	167	1.83%	199
KU	2.34%	350	133	217	1.97%	45
Total		<u>\$ 2,350</u>	<u>\$ 1,315</u>	<u>\$ 1,035</u>		<u>\$ 474</u>

(PPL Electric, LKE, and LG&E)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2018, WPD (South Wales) issued £30 million of 0.01% Index-linked Senior Notes due 2036. WPD (South Wales) received proceeds of £31 million, which equated to \$44 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In May 2018, WPD (West Midlands) issued £30 million of 0.01% Index-linked Senior Notes due 2028. WPD (West Midlands) received proceeds of £31 million, which equated to \$41 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In June 2018, PPL Capital Funding repaid the entire \$250 million principal amount of its 1.90% Senior Notes upon maturity.

(PPL and PPL Electric)

In June 2018, PPL Electric issued \$400 million of 4.15% First Mortgage Bonds due 2048. PPL Electric received proceeds of \$394 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

(PPL, LKE and LG&E)

In March 2018, the County of Trimble, Kentucky remarketed \$28 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.30% through their mandatory purchase date of September 1, 2021.

In May 2018, the County of Trimble, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

In May 2018, the County of Jefferson, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

(PPL, LKE and KU)

In July 2018, KU redeemed, at par, its \$9 million County of Trimble, Kentucky, Environmental Facilities Revenue Bonds, 2007 Series A (Kentucky Utilities Company Project) due 2037.

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(LKE)

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. See Note 11 for additional information related to intercompany borrowings.

(PPL)

Equity Securities

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the applicable forward counterparty shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$26.7057 per share reduced during the period the applicable forward contract is outstanding as specified in such forward sale agreement. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under each forward sale agreement. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. PPL issued 1.2 million and 4.2 million shares of common stock and received gross proceeds of \$34 million and \$119 million for the three and six months ended June 30, 2018.

Distributions

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

9. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries, and LG&E for the periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2018	2017	2018	2017	2018	2017	2018	2017
PPL								
Service cost	\$ 15	\$ 15	\$ 21	\$ 18	\$ 31	\$ 32	\$ 42	\$ 37
Interest cost	39	42	47	44	78	84	94	87
Expected return on plan assets	(62)	(58)	(150)	(127)	(124)	(115)	(300)	(252)
Amortization of:								
Prior service cost	3	3	—	—	5	5	—	—
Actuarial loss	19	14	38	36	41	34	77	71
Net periodic defined benefit costs (credits) before special termination benefits	14	16	(44)	(29)	31	40	(87)	(57)
Special termination benefits (a)	—	(1)	—	—	—	1	—	—
Net periodic defined benefit costs (credits)	\$ 14	\$ 15	\$ (44)	\$ (29)	\$ 31	\$ 41	\$ (87)	\$ (57)

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LKE				
Service cost	\$ 5	\$ 5	\$ 12	\$ 12
Interest cost	16	18	32	34
Expected return on plan assets	(25)	(24)	(51)	(46)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial loss (a)	8	4	18	15
Net periodic defined benefit costs (b)	\$ 6	\$ 5	\$ 15	\$ 19

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$2 million and \$6 million for the three and six months ended June 30, 2018 and \$5 million for the six months ended June 30, 2017. This difference is recorded as a regulatory asset.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$4 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

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	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LG&E				
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	3	3	6	6
Expected return on plan assets	(6)	(6)	(11)	(11)
Amortization of:				
Prior service cost	2	1	3	2
Actuarial loss (a)	1	1	3	4
Net periodic defined benefit costs (b)	\$ 1	\$ —	\$ 2	\$ 2

- (a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million for the six months ended June 30, 2018 and 2017. This difference is recorded as a regulatory asset.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$4 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

	Other Postretirement Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
PPL				
Service cost	\$ 3	\$ 2	\$ 4	\$ 4
Interest cost	7	6	10	12
Expected return on plan assets	(9)	(5)	(13)	(11)
Amortization of prior service cost	1	(1)	—	(1)
Net periodic defined benefit costs	\$ 2	\$ 2	\$ 1	\$ 4

LKE				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	2	4	4
Expected return on plan assets	(2)	(2)	(4)	(3)
Amortization of:				
Prior service cost	1	—	1	—
Actuarial gain	(1)	—	(1)	—
Net periodic defined benefit costs	\$ 1	\$ 1	\$ 2	\$ 3

(PPL Electric, LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 11 for additional information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Six Months	
	2018	2017	2018	2017
PPL Electric	\$ 3	\$ 5	\$ 7	\$ 13
LG&E	2	2	4	5
KU	1	1	2	5

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(All Registrants)

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

10. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Cane Run Environmental Claims *(PPL, LKE and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant, which had three coal-fired units retired in 2015. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

E.W. Brown Environmental Claims *(PPL, LKE and KU)*

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. The case has been briefed and oral argument was presented on August 2, 2018. KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan, and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

Regulatory Issues *(All Registrants)*

See Note 7 for information on regulatory matters related to utility rate regulation.

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Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and an estimate or range of possible losses cannot be determined.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation.

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Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

Ozone

The EPA issued the current ozone standard in October 2015. The states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in nonattainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment designations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. Although implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. Although PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross-State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in nonattainment. In July 2013, the EPA finalized nonattainment designations for parts of the country, including part of Jefferson County in Kentucky. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

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Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015, the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed.

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Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. On March 1, 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. On July 18, 2018, the EPA released a pre-publication copy of a signed final rule extending the deadline for closure of certain impoundments to October 2020 and adopting substantive changes relating to certifications, suspensions of groundwater monitoring and groundwater protection standards for certain constituents. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing rulemaking or potential impacts on current LG&E and KU compliance plans. Revisions to the current rule could potentially result in additional costs.

In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain procedural elements of the new rule but finding the substantive requirements of the new rule to be consistent with those of the federal CCR rule. This ruling was not appealed by any party to the litigation and is now final. Accordingly, LG&E and KU presently operate their facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the judicial ruling. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR rule. The Kentucky Energy and Environmental Cabinet has indicated it may propose rules under such authority in the future.

LG&E and KU received KPSC approval for a compliance plan providing for the closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with the federal CCR rule, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law. On January 26, 2018, KU filed an application requesting a CPCN and approval of amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station. On July 9, 2018, the KPSC granted approval to KU for amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 16 below and Note 19 in the Registrants' 2017 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

On February 20, 2018, the EPA issued a notice requesting comment on the scope of discharges subject to regulation under the Clean Water Act. Specifically, the EPA seeks comments on whether Clean Water Act jurisdiction should cover discharges to groundwater that reach surface water via a direct hydrologic connection. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the future regulatory developments or potential impacts on current LG&E and KU compliance plans.

ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion

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residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant. Currently, the EPA is planning a review of part two later in 2018.

Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating, responding to agency inquiries, implementing various preventative measures, and/or remediating contamination under programs other than those described in the sections above. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

As of June 30, 2018 and December 31, 2017, PPL Electric had a recorded liability of \$11 million and \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted in the paragraph above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary to comply with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be available to cover certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(LKE and KU)

KU has 68 employees that are represented by the IBEW labor union. Contract negotiations with the IBEW commenced in July 2018. The current three-year agreement, scheduled to expire on August 1, 2018, was extended to August 9, 2018. Although union members voted to reject a recent agreement reached by KU and the IBEW, negotiations are continuing. KU cannot predict the outcome of these negotiations but does not expect the ultimate outcome of this matter, including terms of any potential new agreement, or lack thereof, to have a material impact on KU.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of June 30, 2018. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities." The total recorded liability at June 30, 2018 was \$6 million for PPL and not significant for LKE. The total recorded liability at December 31, 2017 was \$17 million for PPL and \$11 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

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	<u>Exposure at June 30, 2018</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (b)	2020
WPD guarantee of pension and other obligations of unconsolidated entities	82 (c)	
<u>PPL Electric</u>		
Guarantee of inventory value	20 (d)	2020
<u>LKE</u>		
Indemnification of lease termination and other divestitures	200 (e)	2021
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2018, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$115 million at June 30, 2018, consisting of LG&E's share of \$80 million and KU's share of \$35 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2017 Form 10-K for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a pro-rata share of certain OVEC obligations of 4.85% filed for bankruptcy under Chapter 11 and is seeking to reject the OVEC power purchase contract, which action OVEC and certain sponsors are contesting. OVEC and certain of its sponsors, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs, establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt. The ultimate outcome of these matters, including the sponsor bankruptcy and related proceedings and any other potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

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PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended June 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Six Months	
	2018	2017	2018	2017
PPL Electric from PPL Services	\$ 15	\$ 44	\$ 31	\$ 95
LKE from PPL Services	7	5	14	11
PPL Electric from PPL EU Services	41	15	76	33
LG&E from LKS	39	38	77	82
KU from LKS	43	47	85	91

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a revolving line of credit with a PPL Electric subsidiary. In June 2018, the revolving line of credit was increased by \$250 million and the limit as of June 30, 2018 was \$650 million. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

(LKE)

LKE maintains a \$300 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2018 and December 31, 2017, \$99 million and \$225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at June 30, 2018 and December 31, 2017 were 3.50% and 2.87%.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market based rates. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rate on the loan is based on the PPL affiliates credit rating and equal to one-month LIBOR plus a spread.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At June 30, 2018 and December 31, 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$3 million and \$7 million for the three and six months ending June 30, 2018 and 2017.

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In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028 with interest due in May and November. At June 30, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. Interest expense on this note was \$2 million for the three and six months ending June 30, 2018.

Other (PPL Electric, LG&E and KU)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
Economic foreign currency exchange contracts (Note 14)	\$ 164	\$ (113)	\$ 52	\$ (156)
Defined benefit plans - non-service credits (Note 9)	66	44	134	82
Interest income	2	—	2	1
AFUDC - equity component	5	4	10	6
Miscellaneous	—	—	1	9
Total Other Income	237	(65)	199	(58)
Other Expense				
Charitable contributions	1	1	5	5
Miscellaneous	2	2	3	14
Total Other Expense	3	3	8	19
Other Income (Expense) - net	\$ 234	\$ (68)	\$ 191	\$ (77)

(PPL Electric)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
AFUDC - equity component	\$ 5	\$ 4	\$ 10	\$ 6
Defined benefit plans - non-service credits (Note 9)	1	1	3	—
Miscellaneous	1	—	1	—
Total Other Income	7	5	14	6
Other Expense				
Charitable contributions	—	—	1	1
Miscellaneous	—	1	—	1
Total Other Expense	—	1	1	2
Other Income (Expense) - net	\$ 7	\$ 4	\$ 13	\$ 4

13. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are

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predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2017 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 852	\$ 852	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	23	23	—	—	26	26	—	—
Special use funds (a)	65	65	—	—	—	—	—	—
Price risk management assets (b):								
Foreign currency contracts	163	—	163	—	163	—	163	—
Cross-currency swaps	100	—	100	—	101	—	101	—
Total price risk management assets	263	—	263	—	264	—	264	—
Total assets	\$ 1,203	\$ 940	\$ 263	\$ —	\$ 775	\$ 511	\$ 264	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	53	—	53	—	148	—	148	—
Total price risk management liabilities	\$ 74	\$ —	\$ 74	\$ —	\$ 174	\$ —	\$ 174	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 489	\$ 489	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 491	\$ 491	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 39	\$ 39	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 39	\$ 39	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 19	\$ 19	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 19	\$ 19	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

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	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 20	\$ 20	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

Special Use Funds

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay for medical claims of active bargaining unit employees. The funds are invested primarily in money market funds.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,420	\$ 23,448	\$ 20,195	\$ 23,783
PPL Electric	3,693	3,950	3,298	3,769
LKE	5,510	5,801	5,159	5,670
LG&E	1,808	1,884	1,709	1,865
KU	2,329	2,480	2,328	2,605

- (a) Amounts are net of debt issuance costs.

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The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

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Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements *(PPL, LKE, LG&E and KU)*

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$28 million obligation to return cash collateral under master netting arrangements at June 30, 2018 and a \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2017.

PPL had no obligation to post cash collateral under master netting arrangements at June 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at June 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at June 30, 2018 and December 31, 2017.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

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Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at June 30, 2018.

For the three and six months ended June 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At June 30, 2018, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and six months ended June 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three and six months ended June 30, 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and six months ended June 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At June 30, 2018, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At June 30, 2018, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

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Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at June 30, 2018.

At June 30, 2018 and December 31, 2017, PPL had \$30 million and \$22 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2018, the total exposure hedged by PPL was approximately £2.0 billion (approximately \$2.8 billion based on contracted rates). These contracts have termination dates ranging from July 2018 through October 2020.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at June 30, 2018 and December 31, 2017.

See Note 1 in each Registrant's 2017 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2018				December 31, 2017			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	5	—	—	—	4	—	—	—
Foreign currency contracts	—	—	73	31	—	—	45	67
Total current	5	—	73	35	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	17	—	—	—	22
Cross-currency swaps (b)	95	—	—	—	97	—	—	—
Foreign currency contracts	—	—	90	22	—	—	118	81
Total noncurrent	95	—	90	39	97	—	118	103
Total derivatives	\$ 100	\$ —	\$ 163	\$ 74	\$ 101	\$ —	\$ 163	\$ 174

- (a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

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The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2018.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ —	Interest expense	\$ (2)	\$ —	\$ (4)	\$ —
Cross-currency swaps	23	(1)	Other income (expense) - net	24	—	12	—
Total	\$ 23	\$ (1)		\$ 22	\$ —	\$ 8	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ 12	\$ 11					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ 164	\$ 52
Interest rate swaps	Interest expense	(2)	(3)
Total		\$ 162	\$ 49

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ 5

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2017.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (2)	\$ (2)	Interest expense	\$ (2)	\$ —	\$ (4)	\$ (1)
Cross-currency swaps	(27)	(35)	Interest expense	(1)	—	—	—
			Other income (expense) - net	(29)	—	(26)	—
Total	\$ (29)	\$ (37)		\$ (32)	\$ —	\$ (30)	\$ (1)
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ —					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in		Three Months	Six Months
	Income on Derivative			
Foreign currency contracts	Other income (expense) - net		\$ (113)	\$ (156)
Interest rate swaps	Interest expense		(1)	(3)
	Total		\$ (114)	\$ (159)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as		Three Months	Six Months
	Regulatory Liabilities/Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (1)	\$ 1

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	June 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	17	—	22
Total noncurrent	—	17	—	22
Total derivatives	\$ —	\$ 21	\$ —	\$ 26

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2018.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Six Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (2)	\$ (3)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Six Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 1	\$ 5

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Six Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (1)	\$ (3)

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Six Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ (1)	\$ 1

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination

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of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
June 30, 2018								
Treasury Derivatives								
PPL	\$ 263	\$ 43	\$ 28	\$ 192	\$ 74	\$ 43	\$ —	\$ 31
LKE	—	—	—	—	21	—	—	21
LG&E	—	—	—	—	21	—	—	21

December 31, 2017

Treasury Derivatives

PPL	\$ 264	\$ 107	\$ 20	\$ 137	\$ 174	\$ 107	\$ —	\$ 67
LKE	—	—	—	—	26	—	—	26
LG&E	—	—	—	—	26	—	—	26

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At June 30, 2018, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

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	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 17	\$ 7	\$ 7
Aggregate fair value of collateral posted on these derivative instruments	—	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	17	7	7

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 10 for information on the CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2017	\$ 397	\$ 356	\$ 121	\$ 235
Accretion	10	9	3	6
Effect of foreign exchange rates	(1)	—	—	—
Changes in estimated timing or cost	1	(7)	(2)	(5)
Obligations settled	(26)	(26)	(10)	(16)
Balance at June 30, 2018	<u>\$ 381</u>	<u>\$ 332</u>	<u>\$ 112</u>	<u>\$ 220</u>

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended June 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
March 31, 2018	\$ (973)	\$ (21)	\$ —	\$ (7)	\$ (2,278)	\$ (3,279)
Amounts arising during the period	(250)	19	—	(1)	—	(232)
Reclassifications from AOCI	—	(19)	—	1	34	16
Net OCI during the period	(250)	—	—	—	34	(216)
June 30, 2018	<u>\$ (1,223)</u>	<u>\$ (21)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,244)</u>	<u>\$ (3,495)</u>

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2017	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the period	(134)	(1)	—	(1)	(1)	(137)
Reclassifications from AOCI	—	(7)	—	1	70	64
Net OCI during the period	(134)	(8)	—	—	69	(73)
June 30, 2018	\$ (1,223)	\$ (21)	\$ —	\$ (7)	\$ (2,244)	\$ (3,495)
March 31, 2017	\$ (1,651)	\$ (14)	\$ (1)	\$ (8)	\$ (2,103)	\$ (3,777)
Amounts arising during the period	231	(24)	—	—	(11)	196
Reclassifications from AOCI	—	25	1	1	31	58
Net OCI during the period	231	1	1	1	20	254
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	207	(30)	—	—	(11)	166
Reclassifications from AOCI	—	24	1	1	63	89
Net OCI during the period	207	(6)	1	1	52	255
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
LKE						
March 31, 2018			\$ —	\$ (9)	\$ (78)	\$ (87)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			—	1	(1)	—
Net OCI during the period			—	1	—	1
June 30, 2018			\$ —	\$ (8)	\$ (78)	\$ (86)
December 31, 2017			\$ —	\$ (9)	\$ (79)	\$ (88)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	1	2
June 30, 2018			\$ —	\$ (8)	\$ (78)	\$ (86)
March 31, 2017			\$ —	\$ (8)	\$ (60)	\$ (68)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	(10)	(9)
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			1	1	2	4
Net OCI during the period			1	1	(9)	(7)
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)

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(PPL)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30.

Details about AOCI	Three Months		Six Months		Affected Line Item on the Statements of Income
	2018	2017	2018	2017	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (4)	\$ (5)	Interest Expense
Cross-currency swaps	24	(29)	12	(26)	Other Income (Expense) - net
	—	(1)	—	—	Interest Expense
Total Pre-tax	22	(32)	8	(31)	
Income Taxes	(3)	7	(1)	7	
Total After-tax	19	(25)	7	(24)	
Equity investees' AOCI					
	—	(1)	—	(1)	Other Income (Expense) - net
Total Pre-tax	—	(1)	—	(1)	
Income Taxes	—	—	—	—	
Total After-tax	—	(1)	—	(1)	
Defined benefit plans					
Prior service costs (a)	(1)	(1)	(1)	(1)	
Net actuarial loss (a)	(43)	(40)	(88)	(81)	
Total Pre-tax	(44)	(41)	(89)	(82)	
Income Taxes	9	9	18	18	
Total After-tax	(35)	(32)	(71)	(64)	
Total reclassifications during the period	\$ (16)	\$ (58)	\$ (64)	\$ (89)	

(a) These AOCI components are included in the computation of net periodic defined benefit cost. See Note 9 for additional information.

17. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition method with transition applied either retrospectively to each prior reporting period presented in the financial statements or as of the beginning of the period of adoption. The standard also provides for certain practical expedients. One of these practical expedients allows entities to elect to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB also issued additional guidance that provides for a practical expedient that allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. The Registrants plan to elect these practical expedients.

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The Registrants are currently assessing the impact of adopting this guidance as well as the transition method they will use. Key implementation activities in process of being completed include finalizing the lease inventory, concluding on open industry issues and identifying and implementing new controls and processes. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL and LKE)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from

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the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The adoption of this guidance will result in PPL and LKE reclassifying \$50 million and \$18 million of deferred tax effects (primarily related to pension and other post-retirement benefits) stranded in AOCI as a result of the TCJA to retained earnings. The Registrants are assessing the period in which they will adopt this guidance.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2017 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2018 with the same periods in 2017. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

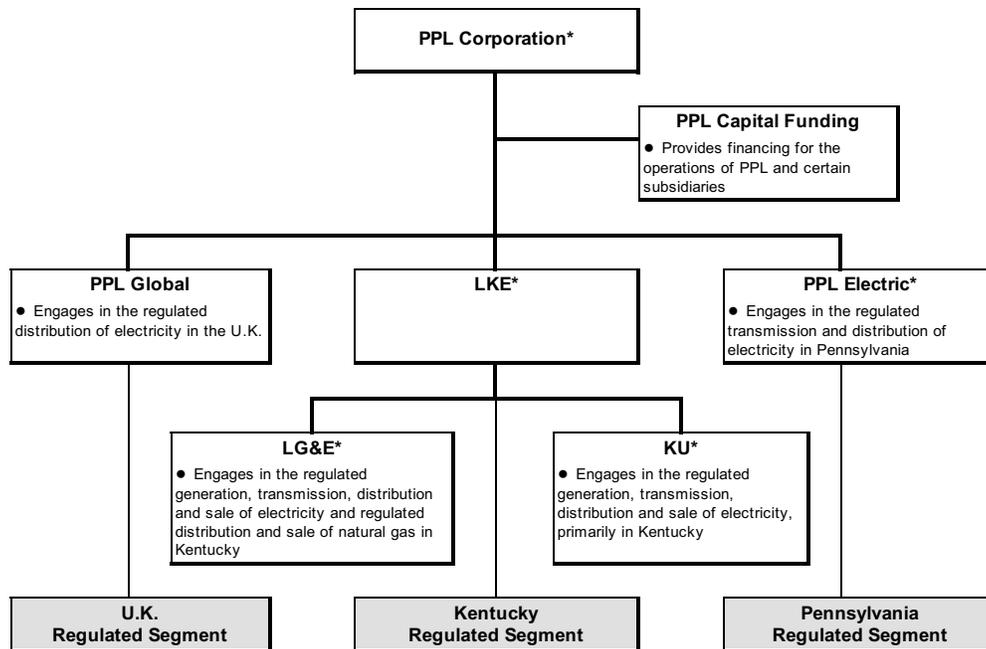
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).



PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. PPL Global is not a Registrant. Unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL operates seven fully regulated, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky, constructive regulatory jurisdictions with distinct regulatory structures and customer classes. PPL believes this business portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's strategy is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.S. businesses, central to our strategy is recovering capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period, which ends on March 31, 2023, and to result in earnings growth in 2018 through at least 2020. See "Item 1. Business - Segment Information - U.K. Regulated Segment" in PPL's 2017 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on

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commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

Financial and Operational Developments

Equity Forward Contracts (PPL)

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November 2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 8 to the Financial Statements for additional information.

U.S. Tax Reform (All Registrants)

Substantially all of the provisions of the TCJA, signed into law on December 22, 2017, are effective for taxable years beginning after December 31, 2017 and, to the extent such provisions are relevant to the Registrants, their impact has been reflected in the financial results for the three and six months ended June 30, 2018. With respect to the TCJA provisions applicable to the period ended December 31, 2017, although additional guidance has been issued by the U.S. Department of the Treasury and the IRS concerning the application or operation of those provisions, such guidance has not materially impacted the related amounts reported in the Registrants' financial statements for the periods ended June 30, 2018.

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

Kentucky State Tax Reform (All Registrants)

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. LKE recognized a deferred tax charge of \$9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

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U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by the European Parliament, the European Council and by the U.K. Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of July 31, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.31 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 50% hedged for 2020 at an average rate of \$1.49 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating

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LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

(PPL and PPL Electric)

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018 Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's operating revenues of which \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23,

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2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

Pennsylvania Alternative Ratemaking

On June 28, 2018, Governor Tom Wolf signed House Bill 1782 (now known as Act 58 of 2018, and to be codified at 66 Pa. C.S. § 1330) authorizing public utilities to implement alternative rates and rate mechanisms in base rate proceedings before the PUC. The effective date of Act 58 is August 27, 2018.

Under the new law, a public utility can file an application to establish alternative rates and rate mechanisms in a base rate proceeding. These alternative rates and rate mechanisms include, but are not limited to the following: decoupling mechanisms, performance-based rates, formula rates, multiyear rate plans, or a combination of those mechanisms or other mechanisms.

The alternative rate mechanisms can include reconcilable surcharges and rates established under current law, including returns on and return of capital investments. Act 58 explicitly provides that it does not invalidate or void any rate mechanisms approved by the PUC prior to the legislation's effective date. Act 58 also specifies customer notice requirements concerning the utility's application for alternative rates or rate mechanisms.

The actual procedures for approval of a utility's application for alternative rates and rate mechanisms are not set forth in Act 58. Rather, the PUC must prescribe those procedures through a regulation or order within six months of the legislation's effective date.

PPL Electric views the passage of Act 58 to be a favorable regulatory development that is expected to expand the rate-making mechanisms available to Pennsylvania regulated utility companies.

(PPL)

RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO framework allows for an MPR of outputs halfway through the price control. Ofgem was consulting on three potential approaches:

- whether to implement an MPR as currently defined;
- whether to implement an MPR with an extension for WPD rail electrification; and
- whether to implement an MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication was that an MPR as currently defined under RIIO-ED1 was not required. In addition, Ofgem recognized that the U.K. rail electrification program applicable in the WPD distribution areas was outside the scope of the MPR and that implementing an MPR to include financial parameters could undermine the stability of the regulatory regime. The consultation, however, requested interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses were submitted by PPL and WPD. On April 30, 2018, Ofgem announced its decision not to conduct an MPR.

RIIO-2 Framework Review

On March 7, 2018, Ofgem issued its consultation document on the RIIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. Ofgem consulted on a wide range of issues, including cost of debt and equity methodologies, the length of the price control period, indexation methodologies, innovation, stakeholder engagement in the business planning process and performance incentive mechanisms. The purpose of the RIIO-2 framework consultation was to build on lessons learned from the current price controls while supporting low costs to consumers, improved customer service and reliability, and the U.K.'s continued shift to a low-carbon future. Comments on the RIIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following their RIIO-2 framework consultation after consideration of comments received. Ofgem confirmed the following points in the decision document:

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- There will be a five-year default length for the price control period, compared to eight years in the current RIIO-ED1 price control.
- There is intent to shift the inflation index used for calculating RAV and allowed returns from RPI to CPIH. Ofgem stated overall, consumers and investors as a whole will be neither better nor worse off in net present value terms as a result of the shift to CPIH and a transition period may be required.
- There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV. WPD is currently transitioning to 45 year asset lives for new additions in RIIO-ED1 based on Ofgem's extensive review of asset lives in RIIO-ED1.
- Ofgem will retain the option for fast-tracking for electricity distribution companies only. Fast tracking will be further considered as part of the electricity distribution sector specific consultation.
- A new enhanced engagement model will be introduced which will require distribution companies to set up a customer engagement group to provide Ofgem with a public report of their views on the companies' business plans from the perspective of local stakeholders. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies' business plans.
- Ofgem intends to expand the role of competition for projects that are new, separable and high value. WPD does not currently have any planned projects that would meet the high value threshold.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem envisions network companies and system operators working together to ensure the energy system as a whole is efficient and delivers best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting the energy transition.

Ofgem also indicated further work is needed on other price control principles, including but not limited to, cost of equity, cost of debt, financeability and incentives with decisions on these items expected to be made in the sector specific consultations or within the individual company business plan submissions. The promulgation of sector specific price controls is expected to begin with the gas and electricity transmission networks in December 2018, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 10 to the Financial Statements for a discussion of the other significant environmental matters.

FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. ("MISO"), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E and KU's respective transmission system ownership ratio. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

Rate Case Proceedings (LKE and KU)

In September 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. On March 22, 2018, KU reached a settlement agreement regarding the case, including the impact of the TCJA on rates, resulting in an increase in annual Virginia base electricity revenue by \$2 million. This represents an increase of 2.8% with rates effective June 1, 2018. On May 8, 2018, the VSCC issued an order approving the settlement agreement.

Acquisition of Solar Energy Solution Provider (PPL)

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, LLC (Safari Energy), a privately held provider of solar energy solutions for commercial customers in the U.S. For its clients, Safari Energy develops highly structured turnkey solutions, managing projects through all phases of development, from inception to financing, design, engineering, permitting, construction, interconnection and asset management. Headquartered in New York City, Safari Energy has completed over 200 solar projects in 19 states, with over 80 projects underway. The acquisition is not material to PPL and the financial results of Safari Energy will be reported within Corporate and Other.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2018 with the same periods in 2017. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Adjusted Gross Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

(PPL Electric, LKE, LG&E and KU)

A "Statement of Income Analysis, Earnings and Adjusted Gross Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2018 with the same periods in 2017. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 1,848	\$ 1,725	\$ 123	\$ 3,974	\$ 3,676	\$ 298
Operating Expenses						
Operation						
Fuel	189	183	6	403	374	29
Energy purchases	148	136	12	389	351	38
Other operation and maintenance	506	432	74	974	902	72
Depreciation	273	246	27	542	488	54
Taxes, other than income	74	70	4	157	145	12
Total Operating Expenses	1,190	1,067	123	2,465	2,260	205
Other Income (Expense) - net	234	(68)	302	191	(77)	268
Interest Expense	235	222	13	474	439	35
Income Taxes	142	76	66	259	205	54
Net Income	\$ 515	\$ 292	\$ 223	\$ 967	\$ 695	\$ 272

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Domestic:		
PPL Electric Distribution price	\$ 10	\$ 11
PPL Electric Distribution volume	12	32
PPL Electric PLR Revenue (a)	9	26
PPL Electric Transmission Formula Rate	22	50
PPL Electric TCJA refund (b)	(37)	(37)
LKE Volumes (c)	36	103
LKE Base rates	28	58
LKE ECR	6	13
LKE TCJA refund (b)	(37)	(79)
LKE DSM	(3)	(11)
LKE Fuel and other energy prices	(9)	(7)
Other	4	10
Total Domestic	41	169
U.K.:		
Price	10	—
Volume	12	4
Foreign currency exchange rates	51	109
Engineering recharge income	11	19
Other	(2)	(3)
Total U.K.	82	129
Total	\$ 123	\$ 298

(a) The increases were primarily due to higher energy volumes.

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- (b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.
- (c) The increases were primarily due to favorable weather in 2018.

Fuel

Fuel increased \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Energy Purchases

Energy purchases increased \$12 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in PLR volumes at PPL Electric.

Energy purchases increased \$38 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in PLR volumes at PPL Electric and a \$23 million increase in natural gas volumes at LG&E driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas at LG&E.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
LKE timing and scope of generation maintenance outages	\$ 6	\$ 7
LKE vegetation management	3	3
LKE gas distribution maintenance and compliance	2	3
LKE storm costs	2	2
PPL Electric vegetation management	(5)	(10)
PPL Electric storm costs	12	16
PPL Electric payroll-related costs	(1)	(14)
PPL Electric Act 129	1	(2)
PPL Electric bad debts	4	7
PPL Electric smart meter	2	4
PPL Electric contractor-related expenses	2	—
Other	19	7
U.K.:		
Foreign currency exchange rates	10	21
Network maintenance	2	4
Third-party engineering	10	16
Other	5	8
Total	<u>\$ 74</u>	<u>\$ 72</u>

Depreciation

Depreciation increased \$27 million and \$54 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program at PPL Electric, higher depreciation rates effective July 1, 2017 and additions, net of retirements at LG&E and KU and the impact of foreign currency exchange rates at WPD.

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Other Income (Expense) - net

Other income (expense) - net increased \$302 million for the three months ended June 30, 2018 compared with 2017 primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$277 million and an increase in non-service cost credits from defined benefit plans of \$22 million.

Other income (expense) - net increased \$268 million for the six months ended June 30, 2018 compared with 2017, primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$208 million and an increase in non-service cost credits from defined benefit plans of \$52 million.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Long-term debt interest expense	\$ 4	\$ 16
Foreign currency exchange rates	8	17
Other	1	2
Total	<u>\$ 13</u>	<u>\$ 35</u>

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ 99	\$ 108
Reduction in U.S. federal income tax rate (a)	(56)	(88)
Valuation allowances adjustments	5	7
U.S. income tax on foreign earnings - net of foreign tax credit (b)	7	17
Federal and state tax reserve adjustments	3	3
Impact of U.K. Finance Acts	4	6
Amortization of excess deferred income taxes (a)	(9)	(19)
Kentucky state tax reform (c)	9	9
Stock-based compensation	4	8
Other	—	3
Total	<u>\$ 66</u>	<u>\$ 54</u>

- (a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) The increases are primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Segment Earnings

PPL's net income by reportable segments for the periods ended June 30 were as follows:

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 394	\$ 148	\$ 246	\$ 591	\$ 434	\$ 157
Kentucky Regulated	77	79	(2)	210	174	36
Pennsylvania Regulated	75	77	(2)	223	156	67
Corporate and Other (a)	(31)	(12)	(19)	(57)	(69)	12
Net Income	<u>\$ 515</u>	<u>\$ 292</u>	<u>\$ 223</u>	<u>\$ 967</u>	<u>\$ 695</u>	<u>\$ 272</u>

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- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The change in 2018 compared with 2017 is primarily due to the utilization of an estimated tax rate, which required tax benefits realized in the first quarter of 2017 to be recognized over the annual period.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended June 30 were as follows:

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 254	\$ 212	\$ 42	\$ 516	\$ 519	\$ (3)
Kentucky Regulated	86	79	7	219	175	44
Pennsylvania Regulated	75	77	(2)	223	156	67
Corporate and Other	(31)	(12)	(19)	(57)	(69)	12
Earnings from Ongoing Operations	\$ 384	\$ 356	\$ 28	\$ 901	\$ 781	\$ 120

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 61% of PPL's Net Income for the six months ended June 30, 2018 and 39% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

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	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 584	\$ 502	\$ 82	\$ 1,199	\$ 1,070	\$ 129
Other operation and maintenance	137	106	31	269	213	56
Depreciation	63	57	6	125	112	13
Taxes, other than income	34	30	4	68	61	7
Total operating expenses	234	193	41	462	386	76
Other Income (Expense) - net	229	(69)	298	182	(69)	251
Interest Expense	97	97	—	204	191	13
Income Taxes	88	(5)	93	124	(10)	134
Net Income	394	148	246	591	434	157
Less: Special Items	140	(64)	204	75	(85)	160
Earnings from Ongoing Operations	\$ 254	\$ 212	\$ 42	\$ 516	\$ 519	\$ (3)

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended June 30.

Income Statement Line Item	Three Months		Six Months	
	2018	2017	2018	2017
Foreign currency economic hedges, net of tax of (\$37), \$34, (\$20), \$46 (a)	\$ 140	\$ (64)	\$ 75	\$ (85)
Total Special Items	\$ 140	\$ (64)	\$ 75	\$ (85)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Adjusted Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	Three Months	Six Months
U.K.		
U.K. Adjusted Gross Margins	\$ 22	\$ 5
Other operation and maintenance	(7)	(11)
Depreciation	(1)	(2)
Other Income (Expense) - net	15	31
Interest expense	8	3
Other	—	(3)
Income taxes	(13)	(17)
U.S.		
Interest expense and other	(3)	(3)
Income taxes	(4)	(46)
Foreign currency exchange, after-tax	25	40
Earnings from Ongoing Operations	42	(3)
Special items, after-tax	204	160
Net Income	\$ 246	\$ 157

U.K.

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher other income (expense) - net for the three and six month periods primarily from higher pension income due to an increase in expected returns on higher asset balances.
- Higher income taxes for the three month period primarily due to higher pre-tax income.

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U.S.

- Higher income taxes for the six month period primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$12 million increase from a reduction in tax benefits on interest deductibility due to the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 22% of PPL's Net Income for the six months ended June 30, 2018 and 34% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 743	\$ 723	\$ 20	\$ 1,615	\$ 1,532	\$ 83
Fuel	189	183	6	403	374	29
Energy purchases	33	29	4	113	98	15
Other operation and maintenance	211	192	19	416	397	19
Depreciation	118	105	13	235	210	25
Taxes, other than income	18	16	2	35	32	3
Total operating expenses	569	525	44	1,202	1,111	91
Other Income (Expense) - net	1	(4)	5	(2)	(8)	6
Interest Expense	69	66	3	136	131	5
Income Taxes	29	49	(20)	65	108	(43)
Net Income	77	79	(2)	210	174	36
Less: Special Items	(9)	—	(9)	(9)	(1)	(8)
Earnings from Ongoing Operations	\$ 86	\$ 79	\$ 7	\$ 219	\$ 175	\$ 44

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2018	2017	2018	2017
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a)	Other Income (Expense) - net	\$ —	\$ —	\$ —	\$ (1)
Kentucky state tax reform (b)	Income Taxes	(9)	—	(9)	—
Total Special Items		\$ (9)	\$ —	\$ (9)	\$ (1)

- (a) KU recorded a write-off of an equity method investment.
(b) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Adjusted Gross Margins and the item that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Six Months
Kentucky Adjusted Gross Margins	\$ 15	\$ 43
Other operation and maintenance	(22)	(23)
Depreciation	(12)	(23)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	5	5
Interest Expense	(3)	(5)
Income Taxes	29	52
Earnings from Ongoing Operations	7	44
Special items, after-tax	(9)	(8)
Net Income	\$ (2)	\$ 36

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher other operation and maintenance expense for the three month period primarily due to a \$6 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.
- Higher other operation and maintenance expense for the six month period primarily due to a \$7 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.
- Higher depreciation expense for the three month period due to a \$7 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.
- Higher depreciation expense for the six month period due to a \$12 million increase related to higher depreciation rates effective July 1, 2017 and an \$11 million increase related to additions to PP&E, net of retirements.
- Lower income taxes for the three month period primarily due to a \$16 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, a \$9 million decrease related to lower pre-tax income and a \$6 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.
- Lower income taxes for the six month period primarily due to a \$42 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, and an \$11 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 23% of PPL's Net Income for the six months ended June 30, 2018 and 26% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

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	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 517	\$ 500	\$ 17	\$ 1,156	\$ 1,073	\$ 83
Energy purchases	115	107	8	276	253	23
Other operation and maintenance	159	140	19	292	303	(11)
Depreciation	88	76	12	173	151	22
Taxes, other than income	22	23	(1)	54	52	2
Total operating expenses	384	346	38	795	759	36
Other Income (Expense) - net	8	6	2	14	6	8
Interest Expense	39	36	3	76	69	7
Income Taxes	27	47	(20)	76	95	(19)
Net Income	75	77	(2)	223	156	67
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 75	\$ 77	\$ (2)	\$ 223	\$ 156	\$ 67

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Pennsylvania Adjusted Gross Margins	\$ (5)	\$ 43
Other operation and maintenance	(7)	20
Depreciation	(9)	(15)
Taxes, other than income	—	(1)
Other Income (Expense) - net	2	8
Interest Expense	(3)	(7)
Income Taxes	20	19
Net Income	\$ (2)	\$ 67

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Higher other operation and maintenance expense for the three month period primarily due to \$5 million of nonrecoverable storm expenses and \$4 million of higher bad debt expenses, partially offset by \$5 million of lower vegetation management expenses.
- Lower other operation and maintenance expense for the six month period primarily due to \$17 million of lower corporate service costs allocated to PPL Electric, \$14 million of lower payroll related expenses and \$10 million of lower vegetation management expenses, partially offset by \$12 million of nonrecoverable storm expenses and \$7 million of higher bad debt expenses.
- Higher depreciation expense for the three and six month periods primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.
- Lower income taxes for the three month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$13 million and lower pre-tax income resulting in \$9 million of lower income taxes.
- Lower income taxes for the six month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$38 million, partially offset by higher pre-tax income resulting in \$20 million of higher income taxes.

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Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended June 30.

	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 394	\$ 77	\$ 75	\$ (31)	\$ 515
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$37)	140	—	—	—	140
Kentucky state tax reform	—	(9)	—	—	(9)
Total Special Items	140	(9)	—	—	131
Earnings from Ongoing Operations	<u>\$ 254</u>	<u>\$ 86</u>	<u>\$ 75</u>	<u>\$ (31)</u>	<u>\$ 384</u>

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 148	\$ 79	\$ 77	\$ (12)	\$ 292
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$34	(64)	—	—	—	(64)
Total Special Items	(64)	—	—	—	(64)
Earnings from Ongoing Operations	<u>\$ 212</u>	<u>\$ 79</u>	<u>\$ 77</u>	<u>\$ (12)</u>	<u>\$ 356</u>

	2018 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 591	\$ 210	\$ 223	\$ (57)	\$ 967
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$20)	75	—	—	—	75
Kentucky state tax reform	—	(9)	—	—	(9)
Total Special Items	75	(9)	—	—	66
Earnings from Ongoing Operations	<u>\$ 516</u>	<u>\$ 219</u>	<u>\$ 223</u>	<u>\$ (57)</u>	<u>\$ 901</u>

	2017 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 434	\$ 174	\$ 156	\$ (69)	\$ 695
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$46	(85)	—	—	—	(85)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(85)	(1)	—	—	(86)
Earnings from Ongoing Operations	<u>\$ 519</u>	<u>\$ 175</u>	<u>\$ 156</u>	<u>\$ (69)</u>	<u>\$ 781</u>

Adjusted Gross Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed

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through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

- "Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, Storm Damage and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Adjusted Gross Margins

The following table shows Adjusted Gross Margins by PPL's reportable segment and by component, as applicable, for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated						
U.K. Adjusted Gross Margins	\$ 538	\$ 469	\$ 69	\$ 1,111	\$ 1,005	\$ 106
Impact of changes in foreign currency exchange rates			47			101
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ 22			\$ 5
Kentucky Regulated						
Kentucky Adjusted Gross Margins						
LG&E	\$ 216	\$ 207	\$ 9	\$ 457	\$ 433	\$ 24
KU	265	259	6	559	540	19
Total Kentucky Adjusted Gross Margins	\$ 481	\$ 466	\$ 15	\$ 1,016	\$ 973	\$ 43
Pennsylvania Regulated						
Pennsylvania Adjusted Gross Margins						
Distribution	\$ 192	\$ 219	\$ (27)	\$ 470	\$ 477	\$ (7)
Transmission	137	115	22	273	223	50
Total Pennsylvania Adjusted Gross Margins	\$ 329	\$ 334	\$ (5)	\$ 743	\$ 700	\$ 43

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U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the three months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$12 million of higher volumes.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the six months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$4 million of higher volumes, partially offset by \$10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased for the three months ended June 30, 2018 compared with 2017, primarily due to higher base rates of \$28 million (\$15 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, \$20 million of increased sales volumes related to favorable weather in 2018 (\$8 million at LG&E and \$12 million at KU) and returns on additional environmental capital investments of \$5 million (\$3 million at LG&E and \$2 million at KU), partially offset by \$37 million of estimated income tax savings owed to customers (\$17 million at LG&E and \$20 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to higher base rates of \$58 million (\$32 million at LG&E and \$26 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, \$51 million of increased sales volumes related to favorable weather in 2018 (\$16 million at LG&E and \$35 million at KU) and returns on additional environmental capital investments of \$10 million (\$6 million at LG&E and \$4 million at KU), partially offset by \$79 million of estimated income tax savings owed to customers (\$37 million at LG&E and \$42 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Pennsylvania Adjusted Gross Margins

Distribution

Distribution Adjusted Gross Margins decreased for the three months ended June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$7 million of higher electricity sales volumes and \$2 million of returns on additional Smart Meter capital investments.

Distribution Adjusted Gross Margins decreased for the six months ended June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$25 million of higher electricity sales volumes and \$5 million of returns on additional Smart Meter capital investments.

Transmission

Transmission Adjusted Gross Margins increased for the three months ended June 30, 2018 compared with 2017, primarily due to increases of \$17 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$5 million as a result of a higher PPL zonal peak load billing factor which affected transmission revenues in the second quarter of 2018.

Transmission Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to an increase of \$39 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$11 million as a result of a higher PPL zonal peak load billing factor in the first five months of 2018.

Reconciliation of Adjusted Gross Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended June 30.

	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 574 (c)	\$ 743	\$ 517	\$ 14	\$ 1,848
Operating Expenses					
Fuel	—	189	—	—	189
Energy purchases	—	33	115	—	148
Other operation and maintenance	36	23	43	404	506
Depreciation	—	17	8	248	273
Taxes, other than income	—	—	22	52	74
Total Operating Expenses	36	262	188	704	1,190
Total	\$ 538	\$ 481	\$ 329	\$ (690)	\$ 658

	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 491 (c)	\$ 723	\$ 500	\$ 11	\$ 1,725
Operating Expenses					
Fuel	—	183	—	—	183
Energy purchases	—	29	107	—	136
Other operation and maintenance	22	26	31	353	432
Depreciation	—	16	5	225	246
Taxes, other than income	—	3	23	44	70
Total Operating Expenses	22	257	166	622	1,067
Total	\$ 469	\$ 466	\$ 334	\$ (611)	\$ 658

	2018 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,179 (c)	\$ 1,615	\$ 1,156	\$ 24	\$ 3,974
Operating Expenses					
Fuel	—	403	—	—	403
Energy purchases	—	113	276	—	389
Other operation and maintenance	68	48	69	789	974
Depreciation	—	34	16	492	542
Taxes, other than income	—	1	52	104	157
Total Operating Expenses	68	599	413	1,385	2,465
Total	\$ 1,111	\$ 1,016	\$ 743	\$ (1,361)	\$ 1,509

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	2017 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,050 (c)	\$ 1,532	\$ 1,073	\$ 21	\$ 3,676
Operating Expenses					
Fuel	—	374	—	—	374
Energy purchases	—	98	253	—	351
Other operation and maintenance	45	52	60	745	902
Depreciation	—	32	9	447	488
Taxes, other than income	—	3	51	91	145
Total Operating Expenses	45	559	373	1,283	2,260
Total	\$ 1,005	\$ 973	\$ 700	\$ (1,262)	\$ 1,416

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$10 million and \$20 million for the three and six months ended June 30, 2018 and \$11 million and \$20 million for the three and six months ended June 30, 2017.

2018 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be relatively flat, driven by favorable weather and higher base electricity and gas rates effective July 1, 2017, offset by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, primarily driven by higher transmission earnings, partially offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be higher in 2018 compared to 2017, due to a lower tax shield on holding company interest expense.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 7 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2017 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 517	\$ 500	\$ 17	\$ 1,156	\$ 1,073	\$ 83
Operating Expenses						
Operation						
Energy purchases	115	107	8	276	253	23
Other operation and maintenance	159	139	20	292	302	(10)
Depreciation	88	76	12	173	151	22
Taxes, other than income	22	23	(1)	54	52	2
Total Operating Expenses	384	345	39	795	758	37
Other Income (Expense) - net	7	4	3	13	4	9
Interest Income from Affiliate	1	1	—	1	1	—
Interest Expense	39	36	3	76	69	7
Income Taxes	27	47	(20)	76	95	(19)
Net Income	\$ 75	\$ 77	\$ (2)	\$ 223	\$ 156	\$ 67

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Distribution price	\$ 10	\$ 11
Distribution volume	12	32
PLR (a)	9	26
Transmission Formula Rate	22	50
TCJA refund (b)	(37)	(37)
Other	1	1
Total	\$ 17	\$ 83

(a) The increases were primarily due to higher energy volumes as described below.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

Energy Purchases

Energy purchases increased \$8 million and \$23 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to higher PLR volumes.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

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	Three Months	Six Months
Corporate service costs	\$ (1)	\$ (17)
Vegetation management	(5)	(10)
Storm costs	12	16
Payroll-related costs	(1)	(14)
Act 129	1	(2)
Bad debts	4	7
Smart Meter	2	4
Contractor-related expenses	2	—
Other	6	6
Total	<u>\$ 20</u>	<u>\$ (10)</u>

Depreciation

Depreciation increased \$12 million and \$22 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Other Income (Expense) - net

Other income (expense) - net increased \$9 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$4 million increase related to higher AFUDC equity rates and a \$3 million increase in non-service cost credits from defined benefit plans.

Interest Expense

Interest expense increased \$3 million and \$7 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047 and the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ (9)	\$ 20
Reduction in U.S. federal income tax rate (a)	(13)	(38)
Amortization of excess deferred income taxes (a)	(3)	(8)
Stock-based compensation	3	5
Other	2	2
Total	<u>\$ (20)</u>	<u>\$ (19)</u>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 75	\$ 77	\$ 223	\$ 156
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items that management considers special for the periods presented.

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Earnings were flat for the three month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, offset by higher operation and maintenance expense and higher depreciation expense.

Earnings increased for the six month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, higher distribution sales volumes and lower operation and maintenance expense, partially offset by higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Pennsylvania Adjusted Gross Margins	\$ (5)	\$ 43
Other operation and maintenance	(8)	19
Depreciation	(9)	(15)
Taxes, other than income	—	(1)
Other Income (Expense) - net	3	9
Interest Expense	(3)	(7)
Income Taxes	20	19
Net Income	<u>\$ (2)</u>	<u>\$ 67</u>

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods. Within PPL's discussion, PPL Electric's Adjusted Gross Margins are referred to as "Pennsylvania Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2018 Three Months			2017 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 517	\$ —	\$ 517	\$ 500	\$ —	\$ 500
Operating Expenses						
Energy purchases	115	—	115	107	—	107
Other operation and maintenance	43	116	159	31	108	139
Depreciation	8	80	88	5	71	76
Taxes, other than income	22	—	22	23	—	23
Total Operating Expenses	<u>188</u>	<u>196</u>	<u>384</u>	<u>166</u>	<u>179</u>	<u>345</u>
Total	<u>\$ 329</u>	<u>\$ (196)</u>	<u>\$ 133</u>	<u>\$ 334</u>	<u>\$ (179)</u>	<u>\$ 155</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,156	\$ —	\$ 1,156	\$ 1,073	\$ —	\$ 1,073
Operating Expenses						
Energy purchases	276	—	276	253	—	253
Other operation and maintenance	69	223	292	60	242	302
Depreciation	16	157	173	9	142	151
Taxes, other than income	52	2	54	51	1	52
Total Operating Expenses	<u>413</u>	<u>382</u>	<u>795</u>	<u>373</u>	<u>385</u>	<u>758</u>
Total	<u>\$ 743</u>	<u>\$ (382)</u>	<u>\$ 361</u>	<u>\$ 700</u>	<u>\$ (385)</u>	<u>\$ 315</u>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 743	\$ 723	\$ 20	\$ 1,615	\$ 1,532	\$ 83
Operating Expenses						
Operation						
Fuel	189	183	6	403	374	29
Energy purchases	33	29	4	113	98	15
Other operation and maintenance	211	192	19	416	397	19
Depreciation	118	105	13	235	210	25
Taxes, other than income	18	16	2	35	32	3
Total Operating Expenses	569	525	44	1,202	1,111	91
Other Income (Expense) - net	1	(4)	5	(2)	(8)	6
Interest Expense	52	50	2	102	99	3
Interest Expense with Affiliate	6	4	2	11	8	3
Income Taxes	31	53	(22)	70	116	(46)
Net Income	\$ 86	\$ 87	\$ (1)	\$ 228	\$ 190	\$ 38

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Volumes (a)	\$ 36	\$ 103
Base rates	28	58
ECR	6	13
TCJA refund (b)	(37)	(79)
DSM	(3)	(11)
Fuel and other energy prices	(9)	(7)
Other	(1)	6
Total	\$ 20	\$ 83

(a) Increases were primarily due to favorable weather in 2018.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

Fuel

Fuel increased \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Energy Purchases

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Timing and scope of generation maintenance outages	\$ 6	\$ 7
Vegetation management	3	3
Gas distribution maintenance and compliance	2	3
Storm costs	2	2
Other	6	4
Total	<u>\$ 19</u>	<u>\$ 19</u>

Depreciation

Depreciation increased \$13 million for the three months ended June 30, 2018 compared with 2017, primarily due to an \$8 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$25 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$15 million increase related to higher depreciation rates effective July 1, 2017 and a \$9 million increase related to additions to PP&E, net of retirements.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (16)	\$ (42)
Amortization of excess deferred income taxes (a)	(6)	(11)
Change in pre-tax income	(9)	(3)
Kentucky state tax reform (b)	9	9
Other	—	1
Total	<u>\$ (22)</u>	<u>\$ (46)</u>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

(b) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 86	\$ 87	\$ 228	\$ 190
Special items, gains (losses), after-tax	(9)	—	(9)	(1)

Excluding special items, earnings increased for the three and six month period in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins and items that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Six Months
Adjusted Gross Margins	\$ 15	\$ 43
Other operation and maintenance	(22)	(23)
Depreciation	(12)	(23)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	5	5
Interest Expense	(4)	(6)
Income Taxes	31	55
Special items, gains (losses), after-tax (a)	(9)	(8)
Net Income	<u>\$ (1)</u>	<u>\$ 38</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special items.

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Adjusted Gross Margins are referred to as "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 743	\$ —	\$ 743	\$ 723	\$ —	\$ 723
Operating Expenses						
Fuel	189	—	189	183	—	183
Energy purchases	33	—	33	29	—	29
Other operation and maintenance	23	188	211	26	166	192
Depreciation	17	101	118	16	89	105
Taxes, other than income	—	18	18	3	13	16
Total Operating Expenses	262	307	569	257	268	525
Total	<u>\$ 481</u>	<u>\$ (307)</u>	<u>\$ 174</u>	<u>\$ 466</u>	<u>\$ (268)</u>	<u>\$ 198</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,615	\$ —	\$ 1,615	\$ 1,532	\$ —	\$ 1,532
Operating Expenses						
Fuel	403	—	403	374	—	374
Energy purchases	113	—	113	98	—	98
Other operation and maintenance	48	368	416	52	345	397
Depreciation	34	201	235	32	178	210
Taxes, other than income	1	34	35	3	29	32
Total Operating Expenses	599	603	1,202	559	552	1,111
Total	<u>\$ 1,016</u>	<u>\$ (603)</u>	<u>\$ 413</u>	<u>\$ 973</u>	<u>\$ (552)</u>	<u>\$ 421</u>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues						
Retail and wholesale	\$ 331	\$ 320	\$ 11	\$ 738	\$ 694	\$ 44
Electric revenue from affiliate	4	4	—	16	21	(5)
Total Operating Revenues	335	324	11	754	715	39
Operating Expenses						
Operation						
Fuel	72	69	3	151	149	2
Energy purchases	28	25	3	104	89	15
Energy purchases from affiliate	2	3	(1)	8	5	3
Other operation and maintenance	93	86	7	182	171	11
Depreciation	49	45	4	97	89	8
Taxes, other than income	9	9	—	18	17	1
Total Operating Expenses	253	237	16	560	520	40
Other Income (Expense) - net	(1)	1	(2)	(2)	(3)	1
Interest Expense	19	19	—	37	36	1
Income Taxes	12	27	(15)	33	60	(27)
Net Income	\$ 50	\$ 42	\$ 8	\$ 122	\$ 96	\$ 26

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Volumes (a)	\$ 16	\$ 44
Base rates	16	32
ECR	2	7
TCJA refund (b)	(17)	(37)
Fuel and other energy prices	(7)	(10)
DSM	(1)	(5)
Other	2	8
Total	\$ 11	\$ 39

(a) Increases were primarily due to favorable weather in 2018.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

Fuel

Fuel increased \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

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Energy Purchases

Energy purchases increased \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in natural gas volumes driven by weather in 2018.

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Gas distribution maintenance and compliance	\$ 2	\$ 3
Timing and scope of generation maintenance outages	1	2
Storm costs	2	2
Other	2	4
Total	<u>\$ 7</u>	<u>\$ 11</u>

Depreciation

Depreciation increased \$4 million for the three months ended June 30, 2018 compared with 2017, due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$8 million for the six months ended June 30, 2018 compared with 2017, due to a \$4 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (9)	\$ (22)
Amortization of excess deferred income taxes (a)	(3)	(5)
Change in pre-tax income	(3)	—
Total	<u>\$ (15)</u>	<u>\$ (27)</u>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 50	\$ 42	\$ 122	\$ 96
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Adjusted Gross Margins	\$ 9	\$ 24
Other operation and maintenance	(7)	(12)
Depreciation	(5)	(10)
Taxes, other than income	(2)	(3)
Other Income (Expense) - net	(2)	1
Interest Expense	—	(1)
Income Taxes	15	27
Net Income	<u>\$ 8</u>	<u>\$ 26</u>

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 335	\$ —	\$ 335	\$ 324	\$ —	\$ 324
Operating Expenses						
Fuel	72	—	72	69	—	69
Energy purchases, including affiliate	30	—	30	28	—	28
Other operation and maintenance	10	83	93	10	76	86
Depreciation	7	42	49	8	37	45
Taxes, other than income	—	9	9	2	7	9
Total Operating Expenses	119	134	253	117	120	237
Total	<u>\$ 216</u>	<u>\$ (134)</u>	<u>\$ 82</u>	<u>\$ 207</u>	<u>\$ (120)</u>	<u>\$ 87</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 754	\$ —	\$ 754	\$ 715	\$ —	\$ 715
Operating Expenses						
Fuel	151	—	151	149	—	149
Energy purchases, including affiliate	112	—	112	94	—	94
Other operation and maintenance	19	163	182	20	151	171
Depreciation	15	82	97	17	72	89
Taxes, other than income	—	18	18	2	15	17
Total Operating Expenses	297	263	560	282	238	520
Total	<u>\$ 457</u>	<u>\$ (263)</u>	<u>\$ 194</u>	<u>\$ 433</u>	<u>\$ (238)</u>	<u>\$ 195</u>

- (a) Represents amounts excluded from Adjusted Gross Margins.
(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues						
Retail and wholesale	\$ 412	\$ 403	\$ 9	\$ 877	\$ 838	\$ 39
Electric revenue from affiliate	2	3	(1)	8	5	3
Total Operating Revenues	414	406	8	885	843	42
Operating Expenses						
Operation						
Fuel	117	114	3	252	225	27
Energy purchases	5	4	1	9	9	—
Energy purchases from affiliate	4	4	—	16	21	(5)
Other operation and maintenance	112	100	12	217	208	9
Depreciation	70	61	9	138	121	17
Taxes, other than income	9	7	2	17	15	2
Total Operating Expenses	317	290	27	649	599	50
Other Income (Expense) - net	3	(2)	5	—	(4)	4
Interest Expense	25	24	1	50	48	2
Income Taxes	14	34	(20)	38	73	(35)
Net Income	\$ 61	\$ 56	\$ 5	\$ 148	\$ 119	\$ 29

Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Volumes (a)	\$ 18	\$ 56
Base rates	12	26
ECR	4	6
Fuel and other energy prices	(2)	2
TCJA refund (b)	(20)	(42)
DSM	(2)	(6)
Other	(2)	—
Total	\$ 8	\$ 42

(a) Increases were primarily due to favorable weather in 2018.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

Fuel

Fuel increased \$3 million and \$27 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Timing and scope of generation maintenance outages	\$ 5	\$ 6
Vegetation management	3	4
Other	4	(1)
Total	<u>\$ 12</u>	<u>\$ 9</u>

Depreciation

Depreciation increased \$9 million for the three months ended June 30, 2018 compared with 2017, primarily due to a \$6 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$17 million for the six months ended June 30, 2018 compared with 2017, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (10)	\$ (26)
Amortization of excess deferred income taxes (a)	(3)	(6)
Change in pre-tax income	(6)	(2)
Other	(1)	(1)
Total	<u>\$ (20)</u>	<u>\$ (35)</u>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 61	\$ 56	\$ 148	\$ 119
Special items, gains (losses), after-tax	—	—	—	(1)

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Six Months
Adjusted Gross Margins	\$ 6	\$ 19
Other operation and maintenance	(15)	(12)
Depreciation	(7)	(13)
Taxes, other than income	(3)	(2)
Other Income (Expense) - net	5	3
Interest Expense	(1)	(2)
Income Taxes	20	35
Special items, gains (losses), after-tax (a)	—	1
Net Income	<u>\$ 5</u>	<u>\$ 29</u>

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 414	\$ —	\$ 414	\$ 406	\$ —	\$ 406
Operating Expenses						
Fuel	117	—	117	114	—	114
Energy purchases, including affiliate	9	—	9	8	—	8
Other operation and maintenance	13	99	112	16	84	100
Depreciation	10	60	70	8	53	61
Taxes, other than income	—	9	9	1	6	7
Total Operating Expenses	<u>149</u>	<u>168</u>	<u>317</u>	<u>147</u>	<u>143</u>	<u>290</u>
Total	<u>\$ 265</u>	<u>\$ (168)</u>	<u>\$ 97</u>	<u>\$ 259</u>	<u>\$ (143)</u>	<u>\$ 116</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 885	\$ —	\$ 885	\$ 843	\$ —	\$ 843
Operating Expenses						
Fuel	252	—	252	225	—	225
Energy purchases, including affiliate	25	—	25	30	—	30
Other operation and maintenance	29	188	217	32	176	208
Depreciation	19	119	138	15	106	121
Taxes, other than income	1	16	17	1	14	15
Total Operating Expenses	<u>326</u>	<u>323</u>	<u>649</u>	<u>303</u>	<u>296</u>	<u>599</u>
Total	<u>\$ 559</u>	<u>\$ (323)</u>	<u>\$ 236</u>	<u>\$ 540</u>	<u>\$ (296)</u>	<u>\$ 244</u>

(a) Represents amounts excluded from Adjusted Gross Margins.
(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
June 30, 2018					
Cash and cash equivalents	\$ 852	\$ 489	\$ 39	\$ 19	\$ 20
Short-term debt	1,864	—	316	183	133
Long-term debt due within one year	203	—	203	194	9
Notes payable with affiliates		—	99	—	—
December 31, 2017					
Cash and cash equivalents	\$ 485	\$ 49	\$ 30	\$ 15	\$ 15
Short-term debt	1,080	—	244	199	45
Long-term debt due within one year	348	—	98	98	—
Notes payable with affiliates		—	225	—	—

(a) At June 30, 2018, \$2 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 5 to the Financial Statements in PPL's 2017 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the six month periods ended June 30, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2018					
Operating activities	\$ 1,325	\$ 364	\$ 440	\$ 255	\$ 274
Investing activities	(1,649)	(521)	(564)	(296)	(266)
Financing activities	695	597	133	45	(3)
2017					
Operating activities	\$ 790	\$ 279	\$ 511	\$ 264	\$ 257
Investing activities	(1,385)	(824)	(355)	(177)	(177)
Financing activities	711	591	(150)	(85)	(75)
Change - Cash Provided (Used)					
Operating activities	\$ 535	\$ 85	\$ (71)	\$ (9)	\$ 17
Investing activities	(264)	303	(209)	(119)	(89)
Financing activities	(16)	6	283	130	72

Operating Activities

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2018 compared with 2017 were as follows.

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	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ 272	\$ 67	\$ 38	\$ 26	\$ 29
Non-cash components	(279)	(25)	(46)	(32)	(51)
Working capital	129	36	46	59	80
Defined benefit plan funding	346	(4)	(93)	(54)	(31)
Other operating activities	67	11	(16)	(8)	(10)
Total	<u>\$ 535</u>	<u>\$ 85</u>	<u>\$ (71)</u>	<u>\$ (9)</u>	<u>\$ 17</u>

(PPL)

PPL's cash provided by operating activities in 2018 increased \$535 million compared with 2017.

- Net income increased \$272 million between periods and included a decrease in non-cash charges of \$279 million. The decrease in non-cash charges was primarily due to an increase in unrealized gains on hedging activities, an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances) and a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans in 2017 and book versus tax plant timing differences and net operating losses at EU) partially offset by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD).
- The \$129 million increase in cash from changes in working capital was primarily due to a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to an increase in current income tax benefits in 2017).
- Defined benefit plan funding was \$346 million lower in 2018. The decrease was primarily due to the acceleration of WPD's contributions to its U.K. pension plans in 2017.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2018 increased \$85 million compared with 2017.

- Net income increased \$67 million between the periods and included a decrease in non-cash charges of \$25 million. The decrease in non-cash charges was primarily driven by a \$31 million decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and net operating losses).
- The \$36 million increase in cash from changes in working capital was primarily due to a \$24 million increase in accounts receivable and a \$13 million increase in unbilled revenues due to an increase in sales volumes and returns on additional capital investments.
- The \$11 million increase in cash provided by other operating activities was primarily due to an increase in non-current regulatory liabilities (primarily due to a \$37 million TCJA liability) partially offset by an increase in non-current regulatory assets (primarily due to \$21 million of storm costs).

(LKE)

LKE's cash provided by operating activities in 2018 decreased \$71 million compared with 2017.

- Net income increased \$38 million between the periods and included a decrease in non-cash charges of \$46 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).
- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), an increase in accounts payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in taxes payable (primarily due to timing of payments), a

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decrease in other current liabilities (primarily due to timing of payments) and an increase in fuel inventory (primarily due to timing of fuel purchases and payments).

- Defined benefit plan funding was \$93 million higher in 2018.
- The decrease in cash from LKE's other operating activities was primarily driven by an increase in ARO expenditures.

(LG&E)

LG&E's cash provided by operating activities in 2018 decreased \$9 million compared with 2017.

- Net income increased \$26 million between the periods and included a decrease in non-cash charges of \$32 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).
- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$54 million higher in 2018.
- The decrease in cash from LG&E's other operating activities was primarily driven by an increase in ARO expenditures.

(KU)

KU's cash provided by operating activities in 2018 increased \$17 million compared with 2017.

- Net income increased \$29 million between the periods and included a decrease in non-cash charges of \$51 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).
- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments), an increase in accounts payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in other current liabilities (primarily due to timing of payments) and an increase in fuel inventory (primarily due to timing of fuel purchases and payments).
- Defined benefit plan funding was \$31 million higher in 2018.
- The decrease in cash from KU's other operating activities was primarily driven by an increase in ARO expenditures.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the six months ended June 30, 2018 compared with 2017 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ (154)	\$ 32	\$ (209)	\$ (119)	\$ (89)

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For PPL, the increase in expenditures was due to higher project expenditures at LKE, LG&E and KU partially offset by lower project expenditures at PPL Electric and WPD. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to the ongoing efforts to improve reliability and replace aging infrastructure. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability partially offset by an increase in foreign currency exchange rates. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and increased spending for environmental water projects at KU's Ghent plant.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2018 compared with 2017 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ (200)	\$ (72)	\$ 100	\$ 100	\$ —
Debt issuance/retirement with affiliate, net		—	250	—	—
Stock issuances/redemptions, net	(30)	—	—	—	—
Dividends	(29)	(68)	—	41	(26)
Capital contributions/distributions, net		(150)	57	43	45
Change in short-term debt, net	234	295	(1)	(54)	53
Notes payable with affiliate		—	(122)	—	—
Other financing activities	9	1	(1)	—	—
Total	\$ (16)	\$ 6	\$ 283	\$ 130	\$ 72

See Note 8 to the Financial Statements in this Form 10-Q for information on 2018 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 7 to the Financial Statements in the Registrants' 2017 Form 10-K for information on 2017 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At June 30, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit and Commercial Paper Issued</u>	<u>Unused Capacity</u>
PPL Capital Funding Credit Facilities	\$ 1,350	\$ —	\$ 1,019	\$ 331
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	700	200	183	317
KU Credit Facilities	598	—	331	267
Total LKE	1,373	200	514	659
Total U.S. Credit Facilities (a)	\$ 3,373	\$ 200	\$ 1,534	\$ 1,639
Total U.K. Credit Facilities (b)	£ 1,185	£ 413	£ —	£ 772

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- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 18%, LG&E - 33% and KU - 37%.
- (b) The amounts borrowed at June 30, 2018 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$349 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £150 million as of the date borrowed. At June 30, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.0 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 300	\$ 99	\$ —	\$ 201
LG&E Money Pool (a)	500	—	183	317
KU Money Pool (a)	500	—	133	367

- (a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at June 30, 2018:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 999	\$ 1
PPL Electric	650	—	650
LG&E	350	183	167
KU	350	133	217
Total LKE	700	316	384
Total PPL	\$ 2,350	\$ 1,315	\$ 1,035

Long-term Debt (All Registrants)

See Note 8 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

Equity Securities Activities

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In connection with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November

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2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes. See Note 8 to the Financial Statements for additional information.

ATM Program

For the three and six months ended June 30, 2018, PPL issued 1.2 million and 4.2 million shares of common stock and received proceeds of \$34 million and \$119 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2018:

(PPL)

In March 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £30 million 0.01% Index-linked Senior Notes due 2036.

In May 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (West Midlands)'s £30 million 0.01% Index-linked Senior Notes due 2028.

(PPL and PPL Electric)

In June 2018, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$400M 4.15% First Mortgage Bonds due 2048.

(PPL, LKE and LG&E)

In February 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$28 million 2.30% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

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In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Jefferson, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at June 30, 2018.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2017 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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The following interest rate hedges were outstanding at June 30, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	\$ 702	\$ 101	\$ (81)	2028
Economic hedges				
Interest rate swaps (d)	147	(21)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(21)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(21)	(2)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at June 30, 2018 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at June 30, 2018 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 658
PPL Electric	193
LKE	177
LG&E	63
KU	94

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in and earnings of U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at June 30, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b)	£ 1,992	\$ 110	\$ (244)	2020

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To economically hedge the translation risk of expected earnings denominated in GBP.

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(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2017 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$143 million for the six months ended June 30, 2018, which primarily reflected a \$227 million decrease to PP&E, a \$45 million decrease to goodwill and a \$2 million increase to other net liabilities, partially offset by a \$131 million decrease to long-term debt. Changes in this exchange rate resulted in a foreign currency translation gain of \$207 million for the six months ended June 30, 2017, which primarily reflected a \$367 million increase to PP&E and \$79 million increase to goodwill partially offset by a \$216 million increase to long-term debt and a \$23 million increase to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2017 Form 10-K for information on the more significant activities.

Environmental Matters *(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be

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significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 10 to the Financial Statements for a discussion of the more significant environmental matters including Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

New Accounting Guidance *(All Registrants)*

See Note 2 and 17 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2017 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Regulatory Assets and Liabilities	X	X	X	X	X
Price Risk Management	X				
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2018, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving tax litigation, regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2017 Form 10-K; and
- Notes 7 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2017 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

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- [*1\(a\)](#) - Final Terms, dated May 11, 2018, of Western Power Distribution (West Midlands) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2028
- [4\(a\)](#) - Supplemental Indenture No. 20, dated as of June 1, 2018, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- [4\(b\)](#) - Officer's Certificate, dated June 14, 2018, pursuant to Section 201 and Section 301 of the Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- [10\(a\)](#) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- [10\(b\)](#) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- [10\(c\)](#) - Additional Confirmation of Forward Sale Transaction, dated May 10, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- [10\(d\)](#) - Additional Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2018, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(d\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(e\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(f\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(g\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(h\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(i\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(j\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2018, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

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101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: August 7, 2018

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: August 7, 2018

/s/ Marlene C. Beers

Marlene C. Beers
Vice President - Finance and Regulatory Affairs and
Controller
(Principal Financial Officer and Principal Accounting
Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

11 May 2018

Western Power Distribution (West Midlands) plc

Issue of GBP 30,000,000 RPI Index Linked Senior Unsecured Notes due May 2028

**under the £3,000,000,000
Euro Medium Term Note Programme**

**Part A
Contractual Terms**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 15 September 2017 and the supplement dated 15 March 2018, which together constitute a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus as so supplemented. The Prospectus and the supplemental Prospectus are available for viewing at www.westernpower.co.uk and during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1	Issuer:	Western Power Distribution (West Midlands) plc
2	(i) Series Number:	2018-2
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series	Not Applicable
3	Specified Currency or Currencies:	Pounds Sterling ("£")
4	Aggregate Nominal Amount:	
	(i) Series:	£ 30,000,000
	(ii) Tranche:	£ 30,000,000
5	(i) Issue Price of Tranche:	102.655 per cent. of the Aggregate Nominal Amount

6	(i)	Specified Denominations:	£100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Notes in definitive form will be issued with a denomination of integral multiples above £199,000.
	(ii)	Calculation Amount:	£1,000
7	(i)	Issue Date:	16 May 2018
	(ii)	Interest Commencement Date:	Issue Date
8		Maturity Date:	16 May 2028
9		Interest Basis:	Index Linked Interest (further particulars specified below)
10		Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount
11		Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
12		Put/Call Options:	Restructuring Put Option (further particulars specified in paragraph 22)
13		Date approval by Committee of the Board of Directors for issuance of Notes obtained:	8 May 2018

Provisions Relating to Interest (if any) Payable

14		Fixed Rate Note Provisions	Applicable
	(i)	Rate of Interest:	0.01 per cent. per annum payable semi-annually in arrear (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio))
	(ii)	Interest Payment Dates:	16 May and 16 November in each year from and including 16 November 2018 to and including the Maturity Date
	(iii)	Fixed Coupon Amount:	£0.050 per Calculation Amount per semi-annual period (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio))
	(iv)	Broken Amount:	Not Applicable
	(v)	Day Count Fraction:	Actual/Actual ICMA
	(vi)	Determination Dates:	16 May and 16 November in each year
15		Floating Rate Note Provisions	Not Applicable
16		Zero Coupon Note Provisions	Not Applicable
17		Index Linked Interest Note Provisions	Applicable
	(i)	Rate of Interest:	Fixed, calculated in accordance with paragraph 14 above
	(ii)	Minimum Indexation Factor:	Not Applicable
	(iii)	Maximum Indexation Factor:	Not Applicable
	(iv)	Base Index Figure:	278.19677 calculated as an interpolation between RPI figures in February 2018 and March 2018
	(v)	Limited Indexation Month(s):	Not Applicable
	(vi)	Reference Gilt:	1.25 per cent. Index-Linked Treasury Stock due 2027
	(vii)	Index Figure applicable	3 months lag
18		Ratings Downgrade Rate Adjustment	Not Applicable

Provisions Relating to Redemption

19		Index Linked Redemption Provisions	Applicable
	(i)	Minimum Indexation Factor:	Not Applicable
	(ii)	Maximum Indexation Factor:	Not Applicable

	(iii)	Base Index Figure:	278.19677 calculated as an interpolation between RPI figures in February 2018 and March 2018
	(iv)	Reference Gilt:	1.25 per cent. Index-Linked Treasury Stock due 2027
	(v)	Index Figure applicable	3 months lag
	(vi)	Redeemable in part:	Not Applicable
20		Issuer Call	Not Applicable
21		Investor Put	Applicable (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(i)	Optional Redemption Date(s):	On the Put Date (as specified in the relevant Put Event Notice) (where (Condition 6(g) (Redemption at the Option of Noteholders on a Restructuring Event) applies)
	(ii)	Notice Period:	As per Condition 6(g) (Redemption at the Option of Noteholders on a Restructuring Event)
	(iii)	Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
22		Restructuring Put Option	Applicable 6(g) (Redemption at the Option of the Noteholders on a Restructuring Event) applies
	(i)	Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
23		Final Redemption Amount:	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
24		Early Redemption Amount payable on redemption for taxation reasons or on event of default	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
General Provisions Applicable to the Notes			
25		Form of Notes:	Bearer
	(i)	if issued in Bearer form:	Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.
		New Global Note/NSS:	Yes (NGN)
26		Additional Financial Centre(s) or other special provisions relating to payment dates:	Not Applicable
27		Talons for future Coupons to be attached to Definitive Notes:	No

Signed on behalf of
Western Power Distribution (West Midlands) plc

By: I R WILLIAMS

Part B
Other Information

1 Listing and Admission to Trading

- | | | |
|------|---|--|
| (i) | Listing and admission to trading: | Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from 16 May 2018 |
| (ii) | Estimate of total expenses related to admission to trading: | £1750 |

2 Ratings

- Ratings:
- The Notes to be issued have been rated:
- Baa1 (Stable) by Moody's Investors Service Limited (**Moody's**);
and
- A- (Stable) by Standard & Poor's Credit Market Services Europe Limited (**S&P**)
- Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended)

3 Interests of Natural and Legal Persons Involved in the Issue

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

- | | | |
|-------|---------------------------|--|
| (i) | Reasons for the offer | See the section entitled "Use of proceeds" in the Prospectus |
| (ii) | Estimated net proceeds: | Not Applicable |
| (iii) | Estimated total expenses: | Not Applicable |

5 Yield (Fixed Rate Notes only)

Indication of yield: 0.252 per cent.

6 Operational Information

- | | | |
|-------|--|--------------------------|
| (i) | ISIN Code: | XS1821535678 |
| (ii) | Common Code: | 182153567 |
| (iii) | Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): | Not Applicable |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | Not applicable |

- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (**ICSD**) as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the **ECB**) being satisfied that Eurosystem eligibility criteria have been met.

7 **Distribution**

- | | | |
|-------|---|---|
| (i) | Method of distribution: | Non-syndicated |
| (ii) | If syndicated, names and addresses of Managers): | Not Applicable |
| (iii) | Date of Dealer Agreement: | 15 September 2017 |
| (iv) | Stabilisation Manager(s) (if any): | Not Applicable |
| (v) | If non-syndicated, name and address of relevant Dealer: | RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF |
| (vi) | U.S. Selling Restrictions: | Reg. S Compliance Category 2; TEFRA D not applicable |
| (vii) | Prohibition of Sales to EEA Retail Investors: | Applicable |

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015 (a)	2014 (a)	2013 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,226	\$ 1,912	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	—	—
	<u>1,226</u>	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
Total fixed charges as below	486	927	917	1,054	1,095	1,096
Less:						
Capitalized interest	4	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>482</u>	<u>923</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>
Total earnings	<u>\$ 1,708</u>	<u>\$ 2,836</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 481	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	5	15	17	16	22	38
Total fixed charges (c)	<u>\$ 486</u>	<u>\$ 927</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>
Ratio of earnings to fixed charges (d)	<u>3.5</u>	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 299	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	82	153	141	139	131	117
Total earnings	<u>\$ 381</u>	<u>\$ 728</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 80	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	2	4	4	4	4	4
Total fixed charges (b)	<u>\$ 82</u>	<u>\$ 153</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>
Ratio of earnings to fixed charges (c)	<u>4.6</u>	<u>4.8</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL Electric does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 298	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>298</u>	<u>692</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>
Total fixed charges as below	<u>118</u>	<u>224</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>
Total earnings	<u>\$ 416</u>	<u>\$ 916</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 113	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	5	9	9	8	6	6
Total fixed charges	<u>\$ 118</u>	<u>\$ 224</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>
Ratio of earnings to fixed charges	<u>3.5</u>	<u>4.1</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>

- (a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.
(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 155	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	40	76	76	61	51	36
Total earnings	<u>\$ 195</u>	<u>\$ 420</u>	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 37	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	3	5	5	4	2	2
Total fixed charges	<u>\$ 40</u>	<u>\$ 76</u>	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>
Ratio of earnings to fixed charges	<u>4.9</u>	<u>5.5</u>	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>

- (a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.
(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 186	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis		1	(1)	(1)	(1)	(1)
	<u>186</u>	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>52</u>	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 238</u>	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 50	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	<u>2</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 52</u>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>5.2</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Marlene C. Beers

Marlene C. Beers
 Vice President - Finance and Regulatory Affairs and
 Controller
 (Principal Financial Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Marlene C. Beers, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

Vice President - Finance and Regulatory Affairs and
Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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FORM 8-K

LG&E & KU Energy LLC - N/A

Filed: September 19, 2018 (period: September 19, 2018)

Report of unscheduled material events or corporate changes.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 19, 2018

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 under the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

- PPL Corporation
- LG&E and KU Energy LLC
- Louisville Gas and Electric Company
- Kentucky Utilities Company

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

and

Section 8 - Other Events

Item 8.01 Other Events

On September 19, 2018, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies") announced that they anticipate filing requests with the Kentucky Public Service Commission ("KPSC") for increases in annual base rates. The applications are planned to be filed on or after September 28, 2018.

The planned applications will request increases in annual base electricity rates of approximately \$112 million at KU and an increase in annual base electricity and gas rates of approximately \$35 million and \$25 million, respectively, at LG&E. The proposed base rate increases would represent an increase of 6.9% in electricity rates at KU and increases of 3.0% and 7.5% in electricity and gas rates, respectively, at LG&E. The planned applications are to be based on a forecasted test year of May 1, 2019 through April 30, 2020 and a requested authorized return-on-equity of 10.42%.

Effective January 1, 2018, the Tax Cuts and Jobs Act ("TCJA") reduced the maximum federal corporate income tax rate from 35% to 21% and included other changes to the U.S. tax code. Earlier this year, the KPSC approved a TCJA bill credit, a temporary rate mechanism that provides a monthly credit to customers' bills to reflect the benefits and associated impacts of the TCJA. Certain elements of the TCJA bill credit remain before the KPSC for a final ruling. As contemplated in the prior proceeding, the Companies' planned application seeks to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

A hearing on the applications may be scheduled in the first quarter 2019. Subject to KPSC approval, the requested rates would become effective on May 1, 2019.

The proceedings have been designated as KPSC Case No. 2018-00294 for KU and Case No. 2018-00295 for LG&E.

LG&E and KU cannot predict the outcome of these proceedings.

A copy of the Companies' press release is furnished as Exhibit 99.1 to this report.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

[99.1](#) - Press release, dated September 19, 2018, of Louisville Gas and Electric Company and Kentucky Utilities Company.

Statements in this report regarding future events and their timing, including the proposed transactions contemplated by the Companies, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: the progress or course of construction or installation; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; market demand and prices for electricity or gas; political, regulatory or economic conditions in states and regions where the Company conducts business; and new state or federal legislation, including new environmental legislation or regulation. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Company's Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ John R. Crockett III

John R. Crockett III
General Counsel, Chief Compliance
Officer and Corporate Secretary

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ John R. Crockett III

John R. Crockett III
General Counsel, Chief Compliance
Officer and Corporate Secretary

KENTUCKY UTILITIES COMPANY

By: /s/ John R. Crockett III

John R. Crockett III
General Counsel, Chief Compliance
Officer and Corporate Secretary

Dated: September 19, 2018

September 19, 2018

LG&E and KU making system-wide enhancements to further improve safe, reliable service

Utilities also propose a Green Energy tariff to help grow renewable energy, drive economic development

(LOUISVILLE, Ky.) - Most folks don't realize the convenience of their natural gas and electric service until it's not there. Fortunately, customers of Louisville Gas and Electric Company and Kentucky Utilities Company have continued to experience safer, more reliable service thanks to additional improvements in the companies' energy infrastructure. Overall, from January 2018 to October 2019, LG&E and KU are investing \$2.2 billion in areas such as equipment that detects outages, stronger poles and wires, and more durable gas lines.

"We are continually enhancing our system to ensure we are providing our customers safe and reliable service now and for years to come," said Paul W. Thompson, chairman, CEO and president of LG&E and KU. "We want to provide the best possible value and service while offering our customers tools to manage their energy usage and options that offer energy choices and drive economic development."

Electric grid investments

As a result of investments in the utilities' system, customers are experiencing improvements in reliability. In the last seven years, LG&E and KU have seen interruptions in electric service decline by 35 percent. While this figure does not include interruptions from extreme storms, such as the July 2018 storm that was the fifth largest in the utilities' history, it demonstrates results for customers. Additionally, when outages do occur, they are now 34 percent shorter in duration compared to 2010.

Key to more improvements in reliability are continued investments in smart restoration-detection equipment on the electric distribution system and similar equipment on the high-voltage transmission system. Reliability has steadily improved by replacing older transmission equipment - including aging wooden poles with more durable steel poles - and installing newer circuit breakers and other components essential for reliable service. Those investments, along with cycle-based vegetation management and the utilities' hazardous tree removal program that removes dead and decaying trees that potentially could fall into LG&E and KU electric lines, continue to help reduce outages.

Natural gas system investments

Likewise on the natural gas system, LG&E is upgrading many of its aging natural gas pipes from older steel to longer-lasting plastic pipes. A pipeline project in Bullitt County will enhance reliability in that region and will support economic development. And to meet federal regulations that enhance safety, LG&E is replacing some gas lines with more consistently sized pipes to facilitate the use of enhanced pipeline inspection tools.

Power plant investments

LG&E and KU are investing in power plant projects to improve overall generation performance and reliability. New cooling towers are being built at Ghent Generating Station, a replacement gas line is being installed for the combustion turbines at E.W. Brown Generating Station, as well as ongoing inspections and maintenance to ensure the units continue to operate at optimal levels. A dewatering plant at Mill Creek Generating Station will allow the company to beneficially use coal combustion residuals to produce gypsum suitable for commercial applications such as wallboard, reducing reliance on the landfill

and the overall impact on the environment. The savings from beneficial use are then passed back to customers.

Proposed “Green Tariff” supports renewable energy growth and economic development

LG&E and KU are proposing offering a business-attracting “Green Tariff.” In a rate review filing that the utilities will make on Sept. 28, LG&E and KU will request a tariff to further promote renewable energy growth and economic development in Kentucky.

Currently, LG&E and KU own and operate Kentucky’s largest universal solar array, producing 10 megawatts of solar-generated energy at E.W. Brown. They also have business solar offerings for commercial and industrial customers, a subscription-based community solar program called Solar Share, and a Green Energy program allowing the utilities to purchase regional renewable energy credits on a customer’s behalf.

The proposed Green Tariff will roll the utilities’ business solar options and Green Energy program into one tariff and provide a third option for purchasing renewable power to make it easier for those wishing to participate in these programs. Additionally, the utilities are requesting enhancements to Solar Share, including the ability to transfer ownership of their shares.

“Green tariffs are used to attract new businesses and jobs. Companies such as Apple, Google, Amazon Web Services, Walmart and Target are all examples of companies that have taken advantage of green tariffs,” Thompson said. “We are fortunate in Kentucky to have some of the lowest energy rates in the country, but we still need more options and a Green Tariff to attract companies interested in a greener environment.”

To continue these investments in safe, reliable service and enhance services and offerings for customers, LG&E will request a cost-based rate increase of 14 cents per day for residential electric customers and 16 cents per day for its residential natural gas customers. KU will request an increase of 32 cents per day for its residential customers. When new rates go into effect, all benefits associated with the Tax Cuts and Jobs Act will be reflected in the companies' base rates, rather than as a line item on customer bills.

LG&E and KU work to ensure their customers receive reasonably priced energy. KU’s current average electric residential rate is approximately 23 percent lower than other similar U.S. utilities, and LG&E’s current average electric residential rate is approximately 18 percent lower. If approved as requested, LG&E and KUs’ rates would remain among the lowest in the nation.

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Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve nearly 1.3 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 326,000 natural gas and 411,000 electric customers in Louisville and 16 surrounding counties. KU serves 553,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.