

PPL Corp  
 Form 10-Q  
 April 29, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2016

OR

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

Commission File Registrant; State of Incorporation;

IRS Employer

Number

Address and Telephone Number

Identification No.

**PPL Corporation**

(Exact name of Registrant as specified in its charter)

(Pennsylvania)

1-11459

23-2758192

Two North Ninth Street

Allentown, PA 18101-1179

(610) 774-5151

**PPL Electric Utilities Corporation**

(Exact name of Registrant as specified in its charter)

(Pennsylvania)

1-905

23-0959590

Two North Ninth Street

Allentown, PA 18101-1179

(610) 774-5151

333-173665

**LG&E and KU Energy LLC**

20-0523163

(Exact name of Registrant as specified in its charter)

(Kentucky)

220 West Main Street

Louisville, KY 40202-1377

(502) 627-2000

**Louisville Gas and Electric Company**

(Exact name of Registrant as specified in its charter)

(Kentucky)

1-2893

61-0264150

220 West Main Street

Louisville, KY 40202-1377

(502) 627-2000

**Kentucky Utilities Company**

(Exact name of Registrant as specified in its charter)

(Kentucky and Virginia)

1-3464

61-0247570

One Quality Street

Lexington, KY 40507-1462

(502) 627-2000

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

PPL Corporation Yes  No   
 PPL Electric Utilities Corporation Yes  No   
 LG&E and KU Energy LLC Yes  No   
 Louisville Gas and Electric Company Yes  No   
 Kentucky Utilities Company Yes  No

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

PPL Corporation Yes  No   
 PPL Electric Utilities Corporation Yes  No   
 LG&E and KU Energy LLC Yes  No   
 Louisville Gas and Electric Company Yes  No   
 Kentucky Utilities Company Yes  No

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

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

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

PPL Corporation Yes  No   
 PPL Electric Utilities Corporation Yes  No

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

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

PPL Corporation	Common stock, \$0.01 par value, 676,945,176 shares outstanding at April 22, 2016.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 22, 2016.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 22, 2016.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 22, 2016.

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

**PPL CORPORATION**

**PPL ELECTRIC UTILITIES CORPORATION**

**LG&E and KU Energy LLC**

**Louisville Gas and Electric Company**

**Kentucky Utilities Company**

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2016

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

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

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## GLOSSARY OF TERMS AND ABBREVIATIONS

### *PPL Corporation and its subsidiaries*

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

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

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

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

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

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

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

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

***PPL EU Services*** - PPL EU Services Corporation, a subsidiary of PPL that, beginning in 2015, provides support services and corporate functions such as financial, supply chain, human resources and facilities management services

primarily to PPL Electric and its affiliates.

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

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

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

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

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

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

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

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

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

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



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

**Other terms and abbreviations**

**£** - British pound sterling.

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

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

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

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

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

**ARO** - asset retirement obligation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**GBP** - British pound sterling.

**GLT** - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.



**Gross Margins** - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A). See "Non-GAAP Financial Measures" within the MD&A for additional details.

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

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

**LIBOR** - London Interbank Offered Rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**RAV** - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent

allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures, which have continued from April 2015 under RIIO-ED1. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Subsidiary Registrant(s)** - PPL Electric, LKE, LG&E and KU.

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

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

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

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

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

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## Forward-looking Information

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

- challenges by intervenors to the return on equity granted in existing rate structures;
  - fuel supply and cost;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
  - weather conditions affecting transmission and distribution operations, and customer energy use;
    - availability and operating costs of existing generation facilities;
  - the duration of and cost associated with outages at our generating facilities;
  - generation, transmission and distribution system conditions, and operating costs;
  - expansion of alternative and distributed sources of electricity generation and storage;
    - collective labor bargaining negotiations;
  - laws or regulations to reduce emissions of "greenhouse" gases or physical effects of climate change;
    - the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
  - the commitments and liabilities of the Registrants and their subsidiaries;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
  - our ability to attract and retain qualified employees;
  - volatility in demand for electricity;
- market prices of commodity inputs for ongoing capital expenditures or key operational needs;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
  - stock price performance of PPL;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities and interest payable on certain debt securities;
  - volatility in or the impact of other changes in financial markets and economic conditions;
  - new accounting requirements or new interpretations or applications of existing requirements;
    - changes in securities and credit ratings;
  - changes in foreign currency exchange rates for British pound sterling;
  - the effect of changes in RPI on WPD's revenues and index linked debt;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;

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- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- the effect of the outcome of the June 2016 referendum in the U.K. relating to its membership in the European Union;
  - receipt of necessary governmental permits, approvals and rate relief;
  - new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
  - the achievement of performance targets set by Ofgem;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
  - the effect of any business or industry restructuring;
  - development of new projects, markets and technologies;
  - performance of new ventures; and

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- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions.

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

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



**PART I. FINANCIAL  
INFORMATION**

**ITEM 1. Financial Statements**

**CONDENSED CONSOLIDATED  
STATEMENTS OF INCOME**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>	<b>\$2,011</b>	\$2,230
<b>Operating Expenses</b>		
Operation		
Fuel	<b>197</b>	253
Energy purchases	<b>233</b>	329
Other operation and maintenance	<b>450</b>	456
Depreciation	<b>229</b>	216
Taxes, other than income	<b>79</b>	86
Total Operating Expenses	<b>1,188</b>	1,340
<b>Operating Income</b>	<b>823</b>	890
Other Income (Expense) - net	<b>61</b>	88
Interest Expense	<b>224</b>	209
<b>Income from Continuing Operations Before Income Taxes</b>	<b>660</b>	769

Income Taxes	<b>179</b>	217
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<b>Income from Continuing Operations After Income Taxes</b>	<b>481</b>	552
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Income (Loss) from Discontinued Operations (net of income taxes)		95
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<b>Net Income</b>	<b>\$481</b>	\$647
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**Earnings Per Share of Common Stock:**

Income from Continuing Operations After Income Taxes:		
Basic	<b>\$0.71</b>	\$0.83
Diluted	<b>\$0.71</b>	\$0.82
Net Income:		
Basic	<b>\$0.71</b>	\$0.97
Diluted	<b>\$0.71</b>	\$0.96

<b>Dividends Declared Per Share of Common Stock</b>	<b>\$0.38</b>	\$0.3725
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**Weighted-Average Shares of Common Stock Outstanding (in thousands)**

Basic	<b>675,441</b>	666,974
Diluted	<b>678,817</b>	668,732

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

**CONDENSED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Net income</b>	<b>\$481</b>	\$647
<b>Other comprehensive income (loss):</b>		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of (\$2), (\$5)	<b>(464)</b>	(66)
Available-for-sale securities, net of tax of \$0, (\$6)		5
Qualifying derivatives, net of tax of (\$15), \$4	<b>80</b>	6
Defined benefit plans:		
Net actuarial gain (loss), net of tax of \$0, \$0		(1)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of \$0, \$1		(1)
Qualifying derivatives, net of tax of \$19, \$4	<b>(78)</b>	(17)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$1		(1)
Defined benefit plans:		
Net actuarial loss, net of tax of (\$9), (\$13)	<b>31</b>	38
<b>Total other comprehensive income (loss)</b>	<b>(431)</b>	(37)
<b>Comprehensive income (loss)</b>	<b>\$50</b>	\$610

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

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

(Unaudited)

*(Millions of Dollars)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 481	\$ 647
(Income) loss from discontinued operations (net of income taxes)		(95)
Income from continuing operations (net of income taxes)	481	552
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by operating activities - continuing operations		
Depreciation	229	216
Amortization	18	11
Defined benefit plans - expense (income)	(13)	16
Deferred income taxes and investment tax credits	162	111
Unrealized (gains) losses on derivatives, and other hedging activities	(34)	(52)
Stock-based compensation expense	13	14
Other	(5)	(3)
Change in current assets and current liabilities		
Accounts receivable	(62)	(128)
Accounts payable	(43)	(49)
Unbilled revenues	18	34
Fuel, materials and supplies	25	76
Prepayments	(86)	(115)
Taxes payable	15	14
Other current liabilities	(66)	(124)
Other	18	33
Other operating activities		
Defined benefit plans - funding	(123)	(197)
Other assets	(5)	(6)
Other liabilities	15	49
Net cash provided by operating	<b>557</b>	<b>452</b>

activities - continuing operations		
Net cash provided by operating activities - discontinued operations		221
Net cash provided by operating activities	<b>557</b>	673
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	<b>(656)</b>	(833)
Expenditures for intangible assets	<b>(6)</b>	(10)
Purchase of other investments		(15)
Other investing activities	<b>1</b>	(2)
Net cash provided by (used in) investing activities - continuing operations	<b>(661)</b>	(860)
Net cash provided by (used in) investing activities - discontinued operations		(130)
Net cash provided by (used in) investing activities	<b>(661)</b>	(990)
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	<b>224</b>	
Retirement of long-term debt	<b>(224)</b>	
Issuance of common stock	<b>42</b>	35
Payment of common stock dividends	<b>(255)</b>	(250)
Net increase (decrease) in short-term debt	<b>351</b>	163
Other financing activities	<b>(23)</b>	(14)
Net cash provided by (used in) financing activities - continuing operations	<b>115</b>	(66)
Net cash provided by (used in) financing activities - discontinued operations		(222)
Net cash distributions to parent from discontinued operations		191
Net cash provided by (used in) financing activities	<b>115</b>	(97)
	<b>(33)</b>	(2)

<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>			
<b>Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations</b>			131
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(22)		(285)
Cash and Cash Equivalents at Beginning of Period	836		1,399
Cash and Cash Equivalents at End of Period	\$ 814	\$	1,114

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

**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>\$814</b>	\$ 836
Accounts receivable (less reserve: 2016, \$48; 2015, \$41)		
Customer	<b>727</b>	673
Other	<b>50</b>	59
Unbilled revenues	<b>419</b>	453
Fuel, materials and supplies	<b>332</b>	357
Prepayments	<b>150</b>	66
Price risk management assets	<b>183</b>	139
Other current assets	<b>38</b>	63
Total Current Assets	<b>2,713</b>	2,646
<b>Property, Plant and Equipment</b>		
Regulated utility plant	<b>33,849</b>	34,399
Less: accumulated depreciation - regulated utility plant	<b>5,731</b>	5,683
Regulated utility plant, net	<b>28,118</b>	28,716
Non-regulated property, plant and equipment	<b>476</b>	516
Less: accumulated depreciation - non-regulated property, plant and	<b>144</b>	165

equipment		
Non-regulated property, plant and equipment, net	<b>332</b>	351
Construction work in progress	<b>1,382</b>	1,315
Property, Plant and Equipment, net	<b>29,832</b>	30,382
<b>Other Noncurrent Assets</b>		
Regulatory assets	<b>1,747</b>	1,733
Goodwill	<b>3,336</b>	3,550
Other intangibles	<b>667</b>	679
Price risk management assets	<b>254</b>	156
Other noncurrent assets	<b>160</b>	155
Total Other Noncurrent Assets	<b>6,164</b>	6,273
<b>Total Assets</b>	<b>\$38,709</b>	\$ 39,301

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



**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	<b>\$1,265</b>	\$ 916
Long-term debt due within one year	<b>485</b>	485
Accounts payable	<b>707</b>	812
Taxes	<b>96</b>	85
Interest	<b>315</b>	303
Dividends	<b>257</b>	255
Customer deposits	<b>306</b>	326
Regulatory liabilities	<b>119</b>	145
Other current liabilities	<b>516</b>	549
Total Current Liabilities	<b>4,066</b>	3,876
<b>Long-term Debt</b>	<b>18,074</b>	18,563
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	<b>3,560</b>	3,440
Investment tax credits	<b>127</b>	128
Accrued pension obligations	<b>1,183</b>	1,405

Asset retirement obligations	<b>517</b>	536
Regulatory liabilities	<b>942</b>	945
Other deferred credits and noncurrent liabilities	<b>478</b>	489
Total Deferred Credits and Other Noncurrent Liabilities	<b>6,807</b>	6,943

**Commitments and Contingent Liabilities**  
(Notes 6 and 10)

**Equity**

Common stock - \$0.01 par value (a)	<b>7</b>	7
Additional paid-in capital	<b>9,729</b>	9,687
Earnings reinvested	<b>3,185</b>	2,953
Accumulated other comprehensive loss	<b>(3,159)</b>	(2,728)
Total Equity	<b>9,762</b>	9,919

**Total Liabilities and Equity**    **\$38,709**    \$ 39,301

(a) 780,000 shares authorized; 676,384 and 673,857 shares issued and outstanding at March 31, 2016 and December 31, 2015.

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

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

(Unaudited)

*(Millions of Dollars)*

	<b>Common stock outstanding (a)</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Earnings reinvested</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
<b>December 31, 2015</b>	673,857	\$7	\$9,687	\$2,953	\$(2,728)	\$9,919
Common stock issued	2,527		70			70
Stock-based compensation			(28)			(28)
Net income				481		481
Dividends and dividend equivalents				(256)		(256)
Other comprehensive income (loss)					(431)	(431)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 2)				7		7
<b>March 31, 2016</b>	676,384	\$7	\$9,729	\$3,185	\$(3,159)	\$9,762
<b>December 31, 2014</b>	665,849	\$7	\$9,433	\$6,462	\$(2,274)	\$13,628
Common stock issued	1,864		54			54
Stock-based compensation			(7)			(7)

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Net income				647		647
Dividends and dividend equivalents				(249)		(249)
Other comprehensive income (loss)					(37)	(37)
<b>March 31, 2015</b>	667,713	\$7	\$9,480	\$6,860	\$(2,311)	\$14,036

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

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

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

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Operating Revenues</b>	<b>\$585</b>	<b>\$630</b>
<b>Operating Expenses</b>		
Operation		
Energy purchases	<b>167</b>	227
Energy purchases from affiliate		9
Other operation and maintenance	<b>150</b>	133
Depreciation	<b>59</b>	51
Taxes, other than income	<b>29</b>	35
Total Operating Expenses	<b>405</b>	455
<b>Operating Income</b>	<b>180</b>	175
Other Income (Expense) - net	<b>3</b>	2
Interest Expense	<b>33</b>	31
<b>Income Before Income Taxes</b>	<b>150</b>	146
Income Taxes	<b>56</b>	59
<b>Net Income (a)</b>	<b>\$94</b>	\$87

(a) Net income equals comprehensive income.

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Cash Flows from Operating Activities</b>		
Net income	<b>\$94</b>	\$87
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	<b>59</b>	51
Amortization	<b>7</b>	6
Deferred income taxes and investment tax credits	<b>65</b>	5
Other	<b>(3)</b>	1
Change in current assets and current liabilities		
Accounts receivable	<b>(43)</b>	(73)
Accounts payable	<b>(2)</b>	(39)
Prepayments	<b>(21)</b>	(60)
Regulatory assets and liabilities	<b>(21)</b>	18
Taxes payable	<b>(8)</b>	5
Other	<b>(7)</b>	(29)
Other operating activities		
Defined benefit plans - funding		(33)
Other assets	<b>3</b>	(1)
Other liabilities	<b>1</b>	17
Net cash provided by (used in) operating activities	<b>124</b>	(45)
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	<b>(214)</b>	(224)
Other investing activities	<b>(1)</b>	(1)
Net cash provided by (used in) investing activities	<b>(215)</b>	(225)
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	<b>224</b>	
Retirement of long-term debt	<b>(224)</b>	
Contributions from parent		50
Payment of common stock dividends to parent	<b>(45)</b>	(44)
Net increase (decrease) in short-term debt	<b>125</b>	85
Other financing activities	<b>(2)</b>	
Net cash provided by (used in) financing activities	<b>78</b>	91
	<b>(13)</b>	(179)



**Net Increase (Decrease) in Cash and Cash  
Equivalents**

Cash and Cash Equivalents at Beginning of Period	<b>47</b>	214
Cash and Cash Equivalents at End of Period	<b>\$34</b>	\$35

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

**CONDENSED CONSOLIDATED  
BALANCE SHEETS**  
**PPL Electric Utilities Corporation and  
Subsidiaries**  
(Unaudited)  
*(Millions of Dollars, shares in  
thousands)*

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>\$34</b>	\$ 47
Accounts receivable (less reserve: 2016, \$21; 2015, \$16)		
Customer	<b>318</b>	286
Other	<b>14</b>	10
Accounts receivable from affiliates	<b>7</b>	
Unbilled revenues	<b>86</b>	91
Materials and supplies	<b>31</b>	34
Prepayments	<b>87</b>	66
Other current assets	<b>13</b>	21
Total Current Assets	<b>590</b>	555
<b>Property, Plant and Equipment</b>		
Regulated utility plant	<b>8,889</b>	8,734
Less: accumulated depreciation - regulated utility plant	<b>2,616</b>	2,573
Regulated utility plant, net	<b>6,273</b>	6,161

Construction work in progress	<b>591</b>	530
Property, Plant and Equipment, net	<b>6,864</b>	6,691
<b>Other Noncurrent Assets</b>		
Regulatory assets	<b>1,003</b>	1,006
Intangibles	<b>245</b>	244
Other noncurrent assets	<b>18</b>	15
Total Other Noncurrent Assets	<b>1,266</b>	1,265
<b>Total Assets</b>	<b>\$8,720</b>	\$ 8,511

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

**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

**PPL Electric Utilities Corporation  
and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in  
thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	<b>\$ 125</b>	
Accounts payable	<b>300</b>	\$ 288
Accounts payable to affiliates	<b>38</b>	35
Taxes	<b>16</b>	24
Interest	<b>31</b>	37
Regulatory liabilities	<b>89</b>	113
Customer deposits	<b>22</b>	31
Other current liabilities	<b>73</b>	77
Total Current Liabilities	<b>694</b>	605
<b>Long-term Debt</b>	<b>2,829</b>	2,828
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	<b>1,731</b>	1,663
	<b>184</b>	183

Accrued pension obligations		
Regulatory liabilities	<b>25</b>	22
Other deferred credits and noncurrent liabilities	<b>89</b>	91
Total Deferred Credits and Other Noncurrent Liabilities	<b>2,029</b>	1,959
<b>Commitments and Contingent Liabilities (Notes 6 and 10)</b>		
<b>Equity</b>		
Common stock - no par value (a)	<b>364</b>	364
Additional paid-in capital	<b>1,934</b>	1,934
Earnings reinvested	<b>870</b>	821
Total Equity	<b>3,168</b>	3,119
<b>Total Liabilities and Equity</b>	<b>\$8,720</b>	\$ 8,511

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

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

**CONDENSED CONSOLIDATED STATEMENTS OF  
EQUITY**

**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

<b>Common stock shares outstanding (a)</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Earnings reinvested</b>	<b>Total</b>
<b>December 31, 2015</b> 66,368	\$ 364	\$ 1,934	\$ 821	\$3,119
Net income			94	94
Dividends declared on common stock			(45)	(45)
<b>March 31, 2016</b> 66,368	\$ 364	\$ 1,934	\$ 870	\$3,168
<b>December 31, 2014</b> 66,368	\$ 364	\$ 1,603	\$ 750	\$2,717
Net income			87	87
Capital contributions from PPL		50		50
Dividends declared on common stock			(44)	(44)
<b>March 31, 2015</b> 66,368	\$ 364	\$ 1,653	\$ 793	\$2,810

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

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

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**CONDENSED CONSOLIDATED  
STATEMENTS OF INCOME**

**LG&E and KU Energy LLC and  
Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Operating Revenues</b>	<b>\$826</b>	\$899
<b>Operating Expenses</b>		
Operation		
Fuel	<b>198</b>	253
Energy purchases	<b>66</b>	92
Other operation and maintenance	<b>202</b>	209
Depreciation	<b>99</b>	95
Taxes, other than income	<b>15</b>	14
Total Operating Expenses	<b>580</b>	663
<b>Operating Income</b>	<b>246</b>	236
Other Income (Expense) - net	<b>(1)</b>	(1)
Interest Expense	<b>49</b>	42
Interest Expense with Affiliate	<b>4</b>	
<b>Income Before Income Taxes</b>	<b>192</b>	193
Income Taxes	<b>72</b>	76
<b>Net Income (a)</b>	<b>\$120</b>	\$117

- (a) Net income approximates comprehensive income.

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Net income	<b>\$120</b>	\$117
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	<b>99</b>	95
Amortization	<b>7</b>	6
Defined benefit plans - expense	<b>7</b>	11
Deferred income taxes and investment tax credits	<b>68</b>	75
Other		17
Change in current assets and current liabilities		
Accounts receivable	<b>(15)</b>	(39)
Accounts payable	<b>25</b>	(18)
Accounts payable to affiliates	<b>5</b>	1
Unbilled revenues	<b>8</b>	32
Fuel, materials and supplies	<b>21</b>	71
Income tax receivable		134
Taxes payable	<b>(25)</b>	(11)
Accrued interest	<b>42</b>	37
Other	<b>(24)</b>	(22)
Other operating activities		
Defined benefit plans - funding	<b>(33)</b>	(53)
Other assets		(6)
Other liabilities	<b>(2)</b>	4
Net cash provided by operating activities	<b>303</b>	451
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	<b>(219)</b>	(321)
Other investing activities		4
Net cash provided by (used in) investing activities	<b>(219)</b>	(317)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in notes payable with affiliate	<b>93</b>	(1)
Net increase (decrease) in short-term debt	<b>(149)</b>	(91)
Debt issuance and credit facility costs	<b>(1)</b>	
Distributions to member	<b>(29)</b>	(23)
Net cash provided by (used in) financing activities	<b>(86)</b>	(115)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2)</b>	19
Cash and Cash Equivalents at Beginning of Period	<b>30</b>	21

Cash and Cash Equivalents at End of Period	<b>\$28</b>	\$40
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*The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.*

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**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

**LG&E and KU Energy LLC and  
Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>\$28</b>	\$ 30
Accounts receivable (less reserve: 2016, \$24; 2015, \$23)		
Customer	<b>225</b>	209
Other	<b>10</b>	16
Unbilled revenues	<b>139</b>	147
Fuel, materials and supplies	<b>277</b>	298
Prepayments	<b>26</b>	23
Regulatory assets	<b>17</b>	35
Other current assets	<b>5</b>	7
Total Current Assets	<b>727</b>	765
<b>Property, Plant and Equipment</b>		
Regulated utility plant	<b>12,040</b>	11,906
Less: accumulated depreciation - regulated utility plant	<b>1,260</b>	1,163
Regulated utility plant, net	<b>10,780</b>	10,743
Construction work in	<b>669</b>	660

progress Property, Plant and Equipment, net	<b>11,449</b>	11,403
<b>Other Noncurrent Assets</b>		
Regulatory assets	<b>744</b>	727
Goodwill	<b>996</b>	996
Other intangibles	<b>117</b>	123
Other noncurrent assets	<b>78</b>	76
Total Other Noncurrent Assets	<b>1,935</b>	1,922
<b>Total Assets</b>	<b>\$14,111</b>	\$ 14,090

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

**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

**LG&E and KU Energy LLC and  
Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	<b>\$116</b>	\$ 265
Long-term debt due within one year	<b>25</b>	25
Notes payable with affiliate	<b>147</b>	54
Accounts payable	<b>232</b>	266
Accounts payable to affiliates	<b>10</b>	5
Customer deposits	<b>53</b>	52
Taxes	<b>21</b>	46
Price risk management liabilities	<b>6</b>	5
Regulatory liabilities	<b>30</b>	32
Interest	<b>74</b>	32
Asset retirement obligations	<b>70</b>	50
Other current liabilities	<b>90</b>	135
Total Current Liabilities	<b>874</b>	967

**Long-term  
Debt**



Long-term debt	<b>4,663</b>	4,663
Long-term debt to affiliate	<b>400</b>	400
Total Long-term Debt	<b>5,063</b>	5,063

**Deferred Credits and Other Noncurrent Liabilities**

Deferred income taxes	<b>1,532</b>	1,463
Investment tax credits	<b>127</b>	128
Accrued pension obligations	<b>267</b>	296
Asset retirement obligations	<b>470</b>	485
Regulatory liabilities	<b>917</b>	923
Price risk management liabilities	<b>47</b>	42
Other deferred credits and noncurrent liabilities	<b>205</b>	206
Total Deferred Credits and Other Noncurrent Liabilities	<b>3,565</b>	3,543

**Commitments and Contingent Liabilities (Notes 6 and 10)**

Member's equity	<b>4,609</b>	4,517
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**Total  
Liabilities and Equity**     **\$14,111** \$ 14,090

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

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**CONDENSED CONSOLIDATED  
STATEMENTS OF EQUITY**  
**LG&E and KU Energy LLC and Subsidiaries**  
(Unaudited)  
*(Millions of Dollars)*

	<b>Member's Equity</b>
<b>December 31, 2015</b>	\$4,517
Net income	120
Distributions to member	(29)
Other comprehensive income (loss)	1
<b>March 31, 2016</b>	<b>\$4,609</b>
<b>December 31, 2014</b>	\$4,248
Net income	117
Distributions to member	(23)
<b>March 31, 2015</b>	<b>\$4,342</b>

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

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**CONDENSED STATEMENTS  
OF INCOME**

**Louisville Gas and Electric  
Company**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Operating Revenues</b>		
Retail and wholesale	<b>\$375</b>	\$417
Electric revenue from affiliate	<b>11</b>	22
Total Operating Revenues	<b>386</b>	439
<b>Operating Expenses</b>		
Operation		
Fuel	<b>78</b>	103
Energy purchases	<b>62</b>	88
Energy purchases from affiliate	<b>2</b>	3
Other operation and maintenance	<b>87</b>	96
Depreciation	<b>41</b>	42
Taxes, other than income	<b>8</b>	7
Total Operating Expenses	<b>278</b>	339
<b>Operating Income</b>	<b>108</b>	100
Other Income (Expense) - net		(1)
Interest Expense	<b>17</b>	13
<b>Income Before Income Taxes</b>	<b>91</b>	86

Income Taxes	<b>35</b>	33
<b>Net Income (a)</b>	<b>\$56</b>	\$53

(a) Net income equals comprehensive income.

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

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

(Unaudited)

*(Millions of Dollars)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Net income	<b>\$56</b>	\$53
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	<b>41</b>	42
Amortization	<b>3</b>	3
Defined benefit plans - expense	<b>3</b>	4
Deferred income taxes and investment tax credits	<b>37</b>	31
Other		14
Change in current assets and current liabilities		
Accounts receivable	<b>(6)</b>	(16)
Accounts receivable from affiliates	<b>(4)</b>	11
Accounts payable	<b>5</b>	(15)
Unbilled revenues	<b>7</b>	18
Fuel, materials and supplies	<b>31</b>	56
Income tax receivable	<b>1</b>	74
Taxes payable	<b>(9)</b>	(7)
Accrued interest	<b>13</b>	9
Other	<b>(9)</b>	(3)
Other operating activities		
Defined benefit plans - funding	<b>(13)</b>	(22)
Other assets		(1)
Other liabilities	<b>1</b>	
Net cash provided by operating activities	<b>157</b>	251
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	<b>(109)</b>	(173)
Net cash provided by (used in) investing activities	<b>(109)</b>	(173)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in short-term debt	<b>(60)</b>	(48)
Debt issuance and credit facility costs	<b>(1)</b>	
Payment of common stock dividends to parent	<b>(25)</b>	(23)
Contributions from parent	<b>30</b>	
Net cash provided by (used in) financing activities	<b>(56)</b>	(71)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(8)</b>	7
Cash and Cash Equivalents at Beginning of Period	<b>19</b>	10
Cash and Cash Equivalents at End of Period	<b>\$11</b>	\$17



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

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

(Unaudited)

(Millions of Dollars, shares in  
thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>\$11</b>	\$ 19
Accounts receivable (less reserve: 2016, \$1; 2015, \$1)		
Customer	<b>97</b>	92
Other	<b>6</b>	7
Accounts receivable from affiliates	<b>16</b>	12
Unbilled revenues	<b>60</b>	67
Fuel, materials and supplies	<b>120</b>	151
Prepayments	<b>8</b>	5
Income taxes receivable	<b>3</b>	4
Regulatory assets	<b>7</b>	16
Other current assets	<b>2</b>	2
Total Current Assets	<b>330</b>	375
<b>Property, Plant and Equipment</b>		
Regulated utility plant	<b>4,889</b>	4,804
Less: accumulated depreciation - regulated utility plant	<b>441</b>	404
	<b>4,448</b>	4,400

Regulated utility plant, net		
Construction work in progress	<b>379</b>	390
Property, Plant and Equipment, net	<b>4,827</b>	4,790
<b>Other Noncurrent Assets</b>		
Regulatory assets	<b>430</b>	424
Goodwill	<b>389</b>	389
Other intangibles	<b>70</b>	73
Other noncurrent assets	<b>18</b>	17
Total Other Noncurrent Assets	<b>907</b>	903
<b>Total Assets</b>	<b>\$6,064</b>	\$ 6,068

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

**CONDENSED BALANCE  
SHEETS**

**Louisville Gas and Electric  
Company**

(Unaudited)

(Millions of Dollars, shares in  
thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	<b>\$82</b>	\$ 142
Long-term debt due within one year	<b>25</b>	25
Accounts payable	<b>137</b>	157
Accounts payable to affiliates	<b>25</b>	25
Customer deposits	<b>26</b>	26
Taxes	<b>11</b>	20
Price risk management liabilities	<b>6</b>	5
Regulatory liabilities	<b>8</b>	13
Interest	<b>24</b>	11
Asset retirement obligations	<b>40</b>	25
Other current liabilities	<b>27</b>	39
Total Current Liabilities	<b>411</b>	488
<b>Long-term Debt</b>	<b>1,617</b>	1,617

**Deferred  
Credits and  
Other  
Noncurrent  
Liabilities**

Deferred income taxes	<b>867</b>	829
Investment tax credits	<b>34</b>	35
Accrued pension obligations	<b>43</b>	56
Asset retirement obligations	<b>136</b>	149
Regulatory liabilities	<b>428</b>	431
Price risk management liabilities	<b>47</b>	42
Other deferred credits and noncurrent liabilities	<b>90</b>	91
Total Deferred Credits and Other Noncurrent Liabilities	<b>1,645</b>	1,633

**Commitments  
and  
Contingent  
Liabilities  
(Notes 6 and  
10)**

**Stockholder's  
Equity**

Common stock - no par value (a)	<b>424</b>	424
Additional paid-in capital	<b>1,641</b>	1,611
Earnings reinvested	<b>326</b>	295

Total Equity	<b>2,391</b>	2,330
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<b>Total Liabilities and Equity</b>	<b>\$6,064</b>	\$ 6,068
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(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2016 and December 31, 2015.

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

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**CONDENSED STATEMENTS OF EQUITY**

**Louisville Gas  
and Electric  
Company**  
(Unaudited)  
(Millions of  
Dollars)

<b>Common stock shares outstanding (a)</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Earnings reinvested</b>	<b>Total</b>
<b>December 31, 21,294 2015</b>	\$424	\$1,611	\$295	\$2,330
Net income			56	56
Capital contributions from LKE		30		30
Cash dividends declared on common stock			(25)	(25)
<b>March 31, 21,294 2016</b>	\$424	\$1,641	\$326	\$2,391
<b>December 31, 21,294 2014</b>	\$424	\$1,521	\$229	\$2,174
Net income			53	53
Cash dividends declared on common stock			(23)	(23)
<b>March 31, 21,294 2015</b>	\$424	\$1,521	\$259	\$2,204

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

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



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**CONDENSED STATEMENTS  
OF INCOME**

**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	<b>Three Months Ended March 31, 2016 2015</b>	
<b>Operating Revenues</b>		
Retail and wholesale	<b>\$ 451</b>	\$ 482
Electric revenue from affiliate	<b>2</b>	3
Total Operating Revenues	<b>453</b>	485
<b>Operating Expenses</b>		
Operation		
Fuel	<b>120</b>	150
Energy purchases	<b>4</b>	4
Energy purchases from affiliate	<b>11</b>	22
Other operation and maintenance	<b>106</b>	104
Depreciation	<b>58</b>	53
Taxes, other than income	<b>7</b>	7
Total Operating Expenses	<b>306</b>	340
<b>Operating Income</b>	<b>147</b>	145
Other Income (Expense) - net	<b>(2)</b>	(1)
Interest Expense	<b>24</b>	19
	<b>121</b>	125



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

(Unaudited)

*(Millions of Dollars)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$75	\$78
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	58	53
Amortization	4	3
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	44	43
Other		2
Change in current assets and current liabilities		
Accounts receivable	(8)	(25)
Accounts payable	23	1
Accounts payable to affiliates	2	(14)
Unbilled revenues	1	14
Fuel, materials and supplies	(10)	15
Income tax receivable		60
Taxes payable	(8)	(1)
Accrued interest	22	19
Other	1	(5)
Other operating activities		
Defined benefit plans - funding	(10)	(15)
Other assets		(3)
Other liabilities	(1)	1
Net cash provided by operating activities	195	229
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(110)	(148)
Other investing activities		4
Net cash provided by (used in) investing activities	(110)	(144)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in short-term debt	(14)	(43)
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(64)	(30)
Net cash provided by (used in) financing activities	(79)	(73)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>6</b>	<b>12</b>
Cash and Cash Equivalents at Beginning of Period	11	11
Cash and Cash Equivalents at End of Period	\$17	\$23

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

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

(Unaudited)

*(Millions of Dollars, shares in thousands)*

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>\$17</b>	\$ 11
Accounts receivable (less reserve: 2016, \$2; 2015, \$2)		
Customer	<b>128</b>	117
Other	<b>3</b>	8
Accounts receivable from affiliates		1
Unbilled revenues	<b>79</b>	80
Fuel, materials and supplies	<b>157</b>	147
Prepayments	<b>8</b>	8
Regulatory assets	<b>10</b>	19
Other current assets	<b>3</b>	5
<b>Total Current Assets</b>	<b>405</b>	396
<b>Property, Plant and Equipment</b>		
Regulated utility plant	<b>7,148</b>	7,099
Less: accumulated depreciation - regulated utility plant	<b>819</b>	759
Regulated utility plant, net	<b>6,329</b>	6,340

Construction work in progress	<b>286</b>	267
Property, Plant and Equipment, net	<b>6,615</b>	6,607
<b>Other Noncurrent Assets</b>		
Regulatory assets	<b>314</b>	303
Goodwill	<b>607</b>	607
Other intangibles	<b>47</b>	50
Other noncurrent assets	<b>50</b>	48
Total Other Noncurrent Assets	<b>1,018</b>	1,008
<b>Total Assets</b>	<b>\$8,038</b>	\$ 8,011

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



**CONDENSED BALANCE  
SHEETS**

**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in  
thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$34	\$ 48
Accounts payable	77	88
Accounts payable to affiliates	42	39
Customer deposits	27	26
Taxes	12	20
Regulatory liabilities	22	19
Interest	38	16
Asset retirement obligations	30	25
Other current liabilities	28	44
Total Current Liabilities	<b>310</b>	325
<b>Long-term Debt</b>	<b>2,326</b>	2,326
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	<b>1,091</b>	1,046

Investment tax credits	<b>93</b>	93
Accrued pension obligations	<b>37</b>	46
Asset retirement obligations	<b>334</b>	336
Regulatory liabilities	<b>489</b>	492
Other deferred credits and noncurrent liabilities	<b>60</b>	60
Total Deferred Credits and Other Noncurrent Liabilities	<b>2,104</b>	2,073

**Commitments and Contingent Liabilities (Notes 6 and 10)**

**Stockholder's Equity**

Common stock - no par value (a)	<b>308</b>	308
Additional paid-in capital	<b>2,596</b>	2,596
Earnings reinvested	<b>394</b>	383
Total Equity	<b>3,298</b>	3,287

**Total Liabilities and Equity**      **\$8,038**    \$ 8,011

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

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

**CONDENSED STATEMENTS OF EQUITY****Kentucky Utilities Company**

(Unaudited)

*(Millions of Dollars)*

	<b>Common stock shares outstanding (a)</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Earnings reinvested</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Total</b>
<b>December 31, 2015</b>	37,818	\$ 308	\$ 2,596	\$ 383		\$3,287
Net income				75		75
Cash dividends declared on common stock				(64)		(64)
<b>March 31, 2016</b>	37,818	\$ 308	\$ 2,596	\$ 394		\$3,298
<b>December 31, 2014</b>	37,818	\$ 308	\$ 2,596	\$ 302		\$3,206
Net income				78		78
Cash dividends declared on common stock				(30)		(30)
Other comprehensive income (loss)					\$ (1)	(1)
<b>March 31, 2015</b>	37,818	\$ 308	\$ 2,596	\$ 350	\$ (1)	\$3,253

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

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

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

**1. Interim Financial Statements**

*(All Registrants)*

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

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

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2016 financial statements.

*(PPL)*

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statement of Cash Flows for the three months ended March 31, 2015 separately reports the cash flows of the discontinued operations. See Note 8 for additional information.

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

*(All Registrants)*

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

### **Accounts Receivable** *(PPL and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three months ended March 31, 2016, PPL Electric purchased \$382 million of accounts receivable from unaffiliated third parties. During the three months ended March 31, 2015, PPL Electric purchased \$331 million of accounts receivable from unaffiliated third parties and \$93 million from PPL EnergyPlus. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

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

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. Effective January 1, 2016, WPD began using individual spot rates to measure service cost and interest cost to calculate net periodic defined benefit cost. For the three months ended March 31, 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on the Statement of Income of \$11 million (\$9 million after-tax or \$0.01 per share).

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

#### Accounting for Stock-Based Compensation

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

Using the required prospective method of transition, PPL recorded a tax benefit of \$8 million (\$0.01 per share) and PPL Electric recorded a tax benefit of \$5 million related to excess tax benefits for awards that were exercised and vested for the period ending March 31, 2016. These amounts were recorded to Income taxes on the Statements of Income and Deferred income taxes on the Balance Sheets. The impact on LKE was not significant.

PPL elected to use the prospective method of transition for classifying excess tax benefits as an Operating activity on the Statement of Cash Flows. The amounts classified as Financing activities in the prior periods were not significant.

Using the required modified retrospective method of transition, PPL recorded a cumulative effect adjustment of \$7 million to increase Earnings reinvested and decrease Deferred income taxes on the Balance Sheet related to prior period unrecognized excess tax benefits.

PPL has historically presented employee taxes paid for net settled awards as a Financing activity on the Statement of Cash Flows. Therefore, there is no transition impact for this requirement.

PPL has elected to recognize forfeitures when they occur. Due to past experience of insignificant forfeitures there is no transition impact of this policy election.

### **3. Segment and Related Information**

*(PPL)*

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

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Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended March 31 are:

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
<b>Income Statement Data</b>		
Revenues from external customers		
U.K. Regulated	\$ 595	\$ 697
Kentucky Regulated	826	899
Pennsylvania Regulated	585	630
Corporate and Other	5	4
Total	\$2,011	\$2,230
Net Income		
U.K. Regulated (a)	\$289	\$375
Kentucky Regulated	112	109
Pennsylvania Regulated	94	87
Corporate and Other	(14)	(19)
Discontinued Operations (b)		95
Total	\$481	\$647

	<b>March 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
<b>Balance Sheet Data</b>		
Assets		
U.K. Regulated (c)	\$ 15,802	\$ 16,669
Kentucky Regulated	13,777	13,756
Pennsylvania Regulated	8,720	8,511
Corporate and Other (d)	410	365
Total assets	\$ 38,709	\$ 39,301

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

(b) See Note 8 for additional information.

(c) Includes \$11.4 billion and \$12.2 billion of net PP&E as of March 31, 2016 and December 31, 2015. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(d) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

#### 4. Earnings Per Share

*(PPL)*

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

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

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
<b>Income (Numerator)</b>		
Income from continuing operations after income taxes	\$ 481	\$ 552
Less amounts allocated to participating securities	2	3
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	\$ 479	\$ 549
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted		\$ 95
Net income	\$ 481	\$ 647
Less amounts allocated to participating securities	2	3
Net income available to PPL common shareowners - Basic and Diluted	\$ 479	\$ 644

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
<b>Shares of Common Stock (Denominator)</b>		
Weighted-average shares - Basic EPS	675,441	666,974
Add incremental non-participating securities:		
Share-based payment awards	3,376	1,758
Weighted-average shares - Diluted EPS	678,817	668,732
<b>Basic EPS</b>		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	\$0.71	\$0.83
Income (loss) from discontinued operations (net of income taxes)		0.14
Net Income	\$0.71	\$0.97
<b>Diluted EPS</b>		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	\$0.71	\$0.82
Income (loss) from discontinued operations (net of income taxes)		0.14
Net Income	\$0.71	\$0.96

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

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
Stock-based compensation plans (a)	2,125	1,445
DRIP	402	419

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

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

**Three Months**

	2016	2015
Stock options	696	1,473
Performance units		146

## 5. Income Taxes

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

(PPL)

	<b>Three Months 2016</b>	<b>2015</b>
Federal income tax on Income from Continuing Operations Before		
Income Taxes at statutory tax rate - 35%	\$ 231	\$ 269
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	13	14
Valuation allowance adjustments	6	9
Impact of lower U.K. income tax rates	(54)	(62)
Interest benefit on U.K. financing entities	(5)	(7)
Stock-based compensation (a)	(8)	
Other	(4)	(6)
Total increase (decrease)	(52)	(52)
Total income taxes	\$ 179	\$ 217

(a) During the three months ended March 31, 2016, PPL recorded an \$8 million tax benefit related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

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*(PPL Electric)*

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 53	\$ 51
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	9	10
Stock-based compensation (a)	(5)	
Other	(1)	(2)
Total increase (decrease)	3	8
Total income taxes	\$ 56	\$ 59

(a) During the three months ended March 31, 2016, PPL Electric recorded a \$5 million tax benefit related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

*(LKE)*

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 67	\$ 68
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	7	7
Valuation allowance adjustments		3
Stock-based compensation	(1)	
Other	(1)	(2)
Total increase (decrease)	5	8
Total income taxes	\$ 72	\$ 76

*(LG&E)*

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 32	\$ 30
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	3	3
Total increase (decrease)	3	3
Total income taxes	\$ 35	\$ 33

*(KU)*

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 42	\$ 44
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	4
Other		(1)
Total increase (decrease)	4	3
Total income taxes	\$ 46	\$ 47

**6. Utility Rate Regulation***(All Registrants)*

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

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	<b>PPL</b>		<b>PPL Electric</b>	
	<b>March</b>	<b>December 31,</b>	<b>March</b>	<b>December 31,</b>
	<b>31,</b>	<b>2015</b>	<b>31,</b>	<b>2015</b>
	<b>2016</b>		<b>2016</b>	
<b>Current Regulatory Assets:</b>				
Environmental cost recovery	\$6	\$ 24		
Transmission service charge	7	10	\$7	\$ 10
Other	13	14	2	3
Total current regulatory assets (a)	\$26	\$ 48	\$9	\$ 13
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$801	\$ 809	\$465	\$ 469
Taxes recoverable through future rates	328	326	328	326
Storm costs	84	93	26	30
Unamortized loss on debt	68	68	43	42
Interest rate swaps	145	141		
Accumulated cost of removal of utility plant AROs	139	137	139	137
Other	17	16	2	2
Total noncurrent regulatory assets	\$1,747	\$ 1,733	\$1,003	\$ 1,006
<b>Current Regulatory Liabilities:</b>				
Generation supply charge	\$30	\$41	\$30	\$41
Demand side management	11	8		
Gas supply clause		6		
Universal service rider	6	5	6	5
Transmission formula rate	37	48	37	48
Fuel adjustment clause	16	14		
Storm damage expense	15	16	15	16
Other	4	7	1	3
Total current regulatory liabilities	\$119	\$145	\$89	\$113
<b>Noncurrent Regulatory Liabilities:</b>				
Accumulated cost of removal of utility plant	\$693	\$691		
Coal contracts (b)	14	17		
Power purchase agreement - OVEC (b)	82	83		
Net deferred tax assets	22	23		
Act 129 compliance rider	25	22	\$25	\$22
Defined benefit plans	24	24		
Interest rate swaps	79	82		
Other	3	3		
Total noncurrent regulatory liabilities	\$942	\$945	\$25	\$22

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	<b>LKE</b>		<b>LG&amp;E</b>		<b>KU</b>	
	<b>March 31, 2016</b>	<b>December 31, 2015</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Current Regulatory Assets:						
Environmental cost recovery	\$6	\$ 24	\$6	\$ 13		\$ 11
Gas supply clause		1		1		
Gas line tracker	1	1	1	1		
Other	10	9		1	\$10	8
Total current regulatory assets	\$17	\$ 35	\$7	\$ 16	\$10	\$ 19
Noncurrent Regulatory Assets:						
Defined benefit plans	\$336	\$ 340	\$211	\$ 215	\$125	\$ 125
Storm costs	58	63	32	35	26	28
Unamortized loss on debt	25	26	16	17	9	9
Interest rate swaps	145	141	103	98	42	43
AROs	165	143	64	57	101	86
Plant retirement costs	6	6			6	6
Other	9	8	4	2	5	6
Total noncurrent regulatory assets	\$744	\$ 727	\$430	\$ 424	\$314	\$ 303



	<b>LKE</b>		<b>LG&amp;E</b>		<b>KU</b>	
	<b>March</b>	<b>December 31,</b>	<b>March</b>	<b>December 31,</b>	<b>March</b>	<b>December 31,</b>
	<b>31</b>	<b>2015</b>	<b>31,</b>	<b>2015</b>	<b>31,</b>	<b>2015</b>
	<b>2016</b>		<b>2016</b>		<b>2016</b>	
Current						
Regulatory						
Liabilities:						
Demand side	\$11	\$ 8	\$5	\$ 4	\$6	\$ 4
management						
Gas supply		6		6		
clause						
Fuel						
adjustment	16	14	3	2	13	12
clause						
Other	3	4		1	3	3
Total current	\$30	\$ 32	\$8	\$ 13	\$22	\$ 19
regulatory						
liabilities						
Noncurrent						
Regulatory						
Liabilities:						
Accumulated						
cost of removal						
of utility plant	\$693	\$ 691	\$303	\$ 301	\$390	\$ 390
Coal contracts	14	17	6	7	8	10
(b)						
Power						
purchase						
agreement -	82	83	57	57	25	26
OVEC (b)						
Net deferred	22	23	22	23		
tax assets						
Defined benefit	24	24			24	24
plans						
Interest rate	79	82	39	41	40	41
swaps						
Other	3	3	1	2	2	1
Total	\$917	\$ 923	\$428	\$ 431	\$489	\$ 492
noncurrent						
regulatory						
liabilities						

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

(b)

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

## **Regulatory Matters**

### U.K. Activities (PPL)

#### *Ofgem Review of Line Loss Calculation*

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. WPD began refunding its liability for over-recovery of line losses to customers on April 1, 2015 and will continue through March 31, 2019. The liability at March 31, 2016 was \$45 million.

### Kentucky Activities

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

On January 29, 2016, LG&E and KU submitted applications to the KPSC for CPCNs and for ECR rate treatment regarding upcoming environmental construction projects relating to the EPA's regulations addressing the handling of coal combustion byproducts and MATS. The construction projects are expected to begin in 2016 and continue through 2023 and are estimated to cost approximately \$316 million at LG&E and \$678 million at KU. The applications request an authorized 10% return on equity with respect to LG&E's and KU's ECR mechanisms consistent with the 2014 Kentucky rate case approved in June 2015. Two parties have been granted intervenor status in the proceedings.

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

LG&E's existing gas franchise agreement for the Louisville/Jefferson County service area expired on March 31, 2016. Pursuant to Kentucky law, upon expiration of a franchise, LG&E retains a revocable license to own and operate its facilities and to provide service. LG&E and city representatives are negotiating regarding a new franchise agreement and, in the interim, LG&E continues to provide gas service to customers in this service area at existing rates, but without collecting the prior franchise fee. LG&E cannot predict the outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation.

Pennsylvania Activities (*PPL and PPL Electric*)

*Act 129*

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In January 2016, PPL Electric and the other parties

reached a settlement of all major issues in the case and filed that settlement with the Administrative Law Judge. In March 2016, the PUC issued an Order approving PPL Electric's Phase III Plan as modified by the settlement, allowing PPL Electric to recover a maximum \$313 million in program cost over the five-year period June 1, 2016 through May 31, 2021 through the Act 129 compliance rider.

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

PPL Electric has received PUC approval of biannual DSP procurement plans for all periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. Hearings are scheduled for June 2016. This proceeding remains pending before the PUC. PPL Electric cannot predict the outcome of this proceeding.

## 7. Financing Activities

### Credit Arrangements and Short-term Debt

*(All Registrants)*

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

<b>March 31, 2016</b>		<b>December 31, 2015</b>	
<b>Expiration Date</b>	<b>Capacity Borrowed</b>	<b>Letters of Credit and Commercial Paper Issued</b>	<b>Unused Capacity Borrowed</b>
		<b>Letters of Credit and Commercial Paper Issued</b>	<b>Unused Capacity Borrowed</b>

**PPL****U.K.**

WPD plc							
Syndicated							
Credit Facility	Jan. 2021	£ 210	£ 144		£ 72	£ 133	
WPD (South West)							
Syndicated							
Credit Facility	July 2020	245			245		
WPD (East Midlands)							
Syndicated							
Credit Facility	July 2020	300	37		263		
WPD (West Midlands)							
Syndicated							
Credit Facility	July 2020	300			300		
Uncommitted Credit Facilities							
Total U.K. Credit Facilities		40	£ 4		36	£ 4	
		£ 1,095	£ 181	£ 4	£ 916	£ 133	£ 4
(a)							

**U.S.**

PPL Capital Funding							
Syndicated							
Credit Facility	Jan. 2021	\$ 700		\$ 700		\$ 151	
Syndicated							
Credit Facility	Nov. 2018	300		73	\$ 227	300	
Bilateral							
Credit Facility	Mar. 2017	150		17	133	20	
Total PPL Capital Funding Credit Facilities		\$ 1,150		\$ 790	\$ 360	\$ 471	

**PPL Electric**

Syndicated							
Credit Facility	Jan. 2021	\$ 400		\$ 126	\$ 274	\$ 1	

**LKE**

Syndicated Credit Facility (b)	Oct. 2018	\$ 75	\$ 75	\$ 75
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	March 31, 2016			December 31, 2015		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Letters of Credit and Commercial Paper Issued
<b>LG&amp;E</b>						
Syndicated Credit Facility	Dec. 2020	\$ 500		\$ 82	\$ 418	\$ 142
<b>KU</b>						
Syndicated Credit Facility	Dec. 2020	\$ 400		\$ 34	\$ 366	\$ 48
Letter of Credit Facility	Oct. 2017	198		198		198
Total KU Credit Facilities		\$ 598		\$ 232	\$ 366	\$ 246

(a) WPD plc's amounts borrowed at March 31, 2016 and December 31, 2015 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 1.26% and 1.83%. The unused capacity reflects the amount borrowed in GBP of £138 million as of the date borrowed. WPD (East Midlands) amount borrowed at March 31, 2016 was a GBP-denominated borrowing which equated to \$51 million and bore interest at 0.91%. At March 31, 2016, the unused capacity under the U.K. credit facilities was approximately \$1.3 billion.

(b) LKE's interest rate on outstanding borrowings at December 31, 2015 was 1.68%.

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

March 31, 2016			December 31, 2015
Weighted	Commercial		Weighted
-	Paper	Unused	-
Average	Paper		Average

	<b>Interest Rate</b>	<b>Capacity</b>	<b>Issuances</b>	<b>Capacity</b>	<b>Interest Rate</b>	<b>Issuances</b>
PPL Capital Funding	0.85%	\$ 1,000	\$ 773	\$ 227	0.78%	\$ 451
PPL Electric	0.72%	400	125	275		
LG&E	0.79%	350	82	268	0.71%	142
KU	0.64%	350	34	316	0.72%	48
Total		\$ 2,100	\$ 1,014	\$ 1,086		\$ 641

*(LKE)*

See Note 11 for discussion of intercompany borrowings.

### **Long-term Debt**

*(PPL and PPL Electric)*

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

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



*(PPL)*

### **ATM Program**

In February 2015, PPL filed a registration statement with the SEC and entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended March 31, 2016 and 2015, PPL did not issue any shares under the agreements.

### **Distributions**

In February 2016, PPL declared a quarterly common stock dividend, payable April 1, 2016, of 38 cents per share (equivalent to \$1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

## **8. Acquisitions, Development and Divestitures**

*(All Registrants)*

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

*(PPL)*

### **Discontinued Operations**

Spinoff of PPL Energy Supply

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

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

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

*Continuing Involvement (PPL and PPL Electric)*

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years after the spinoff. Pursuant to the TSA, PPL is providing Talen Energy certain information technology, financial and accounting, human resource and other specified services. For the three months ended March 31, 2016, the amounts PPL billed Talen Energy for these services were \$10 million. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

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

For the three months ended March 31, 2016, PPL Electric's energy purchases from Talen Energy Marketing were \$54 million and are no longer considered affiliate transactions.

*Summarized Results of Discontinued Operations (PPL)*

The operations of the Supply segment prior to the spinoff on June 1, 2015 are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statement of Income for the period ended March 31, 2015:

Operating revenues	\$944
Operating expenses	767
Other Income (Expense) - net	7
Interest expense (a)	38
Income (loss) before income taxes	146
Income tax expense (benefit)	51
Income (Loss) from Discontinued Operations (net of income taxes)	\$95

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

**Development**

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

*Northeast/Pocono*

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

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

**9. Defined Benefits***(PPL, LKE and LG&E)*

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries and LG&E for the three month periods ended March 31:

	<b>Pension Benefits</b>			<b>Other Postretirement Benefits</b>		
	<b>U.S. 2016</b>	<b>2015</b>	<b>U.K. 2016 (b)</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b><u>PPL</u></b>						
Service cost	\$17	\$30	\$18	\$20	\$ 2	\$ 4
Interest cost	43	57	62	79	6	7
Expected return on plan assets	(56)	(75)	(133)	(131)	(5)	(7)
Amortization of:						
Prior service cost	1	2				
Actuarial (gain) loss	15	24	37	39		
Net periodic defined benefit costs (credits)	\$20	\$38	\$(16)	\$7	\$ 3	\$ 4
(a)						
<b><u>LKE</u></b>						
Service cost	\$6	\$7		\$1	\$1	
Interest cost	17	17		2	2	
Expected return on plan assets	(21)	(22)		(2)	(1)	
Amortization of:						
Prior service cost	1	2		1	1	
Actuarial (gain) loss	5	8				
Net periodic defined benefit costs (credits)	\$8	\$12		\$2	\$3	

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	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>U.S.</b>	<b>U.K.</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>(b)</b>		
<b><u>LG&amp;E</u></b>				
Interest cost	\$3	\$3		
Expected return on plan assets	(5)	(5)		
Amortization of:				
Prior service cost	1	1		
Actuarial (gain) loss	2	3		
Net periodic defined benefit costs (credits)	\$1	\$2		

For the three months ended March 31, 2015, the total net periodic defined benefit cost includes \$11 million (a) reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply prior to the spinoff.

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

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

In addition to the specific plans it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	<b>Three Months 20162015</b>	
PPL Electric	\$ 6	\$ 8

LG&E	2	3
KU	3	5

## 10. Commitments and Contingencies

### Legal Matters

*(All Registrants)*

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

#### WKE Indemnification (PPL and LKE)

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

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

#### Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth



Circuit issued an order granting appellate review regarding the above matter. Oral argument before the Sixth Circuit was held in August 2015. In November 2015, the Sixth Circuit issued an opinion affirming the District Court's ruling that plaintiffs' state law claims are not preempted by the Clean Air Act and remanding the matter to the District Court for further proceedings. Certain discovery matters are before the District Court. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

#### Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, costs and attorney's fees. In August 2015, the Court denied cross-motions for summary judgment filed by both parties and directed the parties to proceed with discovery. Discovery proceedings are underway and the parties have also conducted limited settlement discussions in the matter. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant, including increased capital or operating costs, if any, but believe the plant is operating in compliance with the permits.

#### E.W. Brown Environmental Claims

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

#### Trimble County Unit 2 Air Permit

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the Trimble County Unit 2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups



petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

#### Trimble County Water Discharge Permit

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

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

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

### Electricity - Reliability Standards

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

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

PPL, LG&E, KU and PPL Electric monitor their compliance with the Reliability Standards and continue to self-report or self-log potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

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

### **Environmental Matters - Domestic**

*(All Registrants)*

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

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state, or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

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

## Air

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

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

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

*National Ambient Air Quality Standards (NAAQS)*

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another states' non-attainment. States that are not in the ozone transport region, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be predicted at this time.

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

*Mercury and Air Toxics Standards (MATS)*

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

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

#### *New Source Review (NSR)*

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

#### *Climate Change*

There is continuing attention focused on issues related to climate change. Most recently, in December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate which establishes a comprehensive framework for the reduction of greenhouse gas (GHG) emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate and maintain GHG reduction commitments. Reductions can currently be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation, or replacing coal-fired generation with natural gas or renewable

generation. Based on EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025.

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

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

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

*The EPA's Clean Power Plan*

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

LG&E and KU are participating in the ongoing regulatory processes at the state and federal level. Various states, industry groups, and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. On February 9, 2016, the Supreme Court stayed the rule pending the D.C. Circuit Court's review. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

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

Water/Waste

*Coal Combustion Residuals (CCRs)*

On April 17, 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective on October 19, 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable solely through citizen suits. LG&E and KU are also subject to state rules applicable to CCR management which may potentially be modified to reflect some or all requirements of the federal rule. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule which are pending before the D.C. Circuit Court of Appeals.

LG&E and KU are pursuing KPSC approval for a compliance plan providing for construction of additional landfill capacity at the Brown Station, closure of impoundments at the Mill Creek, Trimble County, Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, LG&E and KU are also proposing to close impoundments at the retired Green River, Pineville, and Tyrone plants to comply with applicable state law requirements. PPL, LKE, LG&E, and KU estimate the cost of these CCR compliance measures at \$311 million for LG&E and \$661 million for KU. See Note 6 for additional information.

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

*Clean Water Act*



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

*Effluent Limitations Guidelines (ELGs)*

On September 30, 2015, the EPA released its final effluent limitations guidelines for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater, and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical, and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. It has not been decided how Kentucky intends to integrate the ELGs into its routine permit renewal process. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule which have been consolidated before the 5<sup>th</sup> Circuit Court of Appeals. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time although certain preliminary estimates are included in current capital forecasts, for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

*Clean Water Act Section 316(b)*

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

*(All Registrants)*

*Waters of the United States (WOTUS)*

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

*Other Issues*

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA has postponed the release of the revised regulations to June 2016. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

Superfund and Other Remediation *(All Registrants)*

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

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

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

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

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

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

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

#### **Environmental Matters - WPD (PPL)**

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

#### **European Union Creosote Ban**

In 2011, the European Commission amended the European Union Biocides Directive to ban the use of creosote in contact with soil. Creosote is a wood preservative used to extend the life of wooden poles that support power lines. Although European Union member countries were required to pass implementing laws by 2012, the U.K. has not passed an implementing law and there are no legal penalties for failing to do so. If the U.K. were to pass an implementing law, WPD's creosote-treated wood poles would need to be replaced with an acceptable alternative at the time of routine replacement. WPD has 1.4 million wood poles in its system. There are currently no alternative wood preservatives available that are acceptable to the industry and/or regulators. It is not currently anticipated that the U.K. will adopt legislation to implement the creosote ban.

#### **Carbon Reduction Commitment**

The U.K.'s Carbon Reduction Commitment is a binding law that requires WPD to file reports regarding its carbon emissions and to purchase carbon allowances to offset emissions associated with WPD's operations. Failure to do so subjects WPD to fines and penalties. The approximate annual cost of purchasing allowances is £400 thousand and is included in WPD's budgeted expenditures. WPD expects these costs to decrease as 18 fuel sources previously subject to these reporting and emission allowance requirements have been exempted from these requirements. In addition, it is expected that energy efficiency measures will continue to decrease WPD's carbon emissions.

#### Insulating Oil

In 2014, the U.K. Environment Agency interpreted the Waste Framework Directive (a U.K. law) to classify electrical insulating oil as a hazardous waste. As a result, under the Hazardous Waste Regulations 2005 all sites with electrical equipment (other than pole mounted transformers) must be individually registered and licensed as a hazardous waste site, records must be maintained of all shipments of insulating oil to or from those sites and appropriate personnel must be trained on the license requirements. WPD has submitted, or is in the process of submitting, all required permit applications and is conducting training of WPD personnel as required. Compliance visits have been undertaken by the U.K. Environment Agency with no significant findings or permit violations.

Discharge at Substation

In 2014, a leak from a cable joint at a substation resulted in a discharge of a substance known as Linear Alkyl Benzene. The leak did not directly affect any third parties but did reduce the use of River Rea. WPD has taken interim remedial measures and is developing an overall remedial action package in collaboration with the U.K. Environment Agency. WPD has made a voluntary contribution of £25 thousand to a public park under an agreement among WPD, the U.K. Environment Agency and a local wildlife trust. WPD expects to incur additional costs to address this incident, including reimbursement of oversight costs incurred by the U.K. Environment Agency, that are not expected to be significant.

**Other**

Guarantees and Other Assurances

*(All Registrants)*

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

*(PPL)*

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

*(All Registrants)*

The table below details guarantees provided as of March 31, 2016. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at March 31, 2016, was \$24 million for PPL and \$18 million for LKE. The total recorded liability at December 31, 2015, was \$25 million for PPL and \$18 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<b>Exposure at March 31, 2016</b>		<b>Expiration Date</b>
<b><u>PPL</u></b>			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 11	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	111	(c)	
<b><u>PPL Electric</u></b>			
Guarantee of inventory value	26	(d)	2018
<b><u>LKE</u></b>			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023
<b><u>LG&amp;E and KU</u></b>			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the (a) acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

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

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers

make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 2016, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.

(d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.

LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that fall outside the cap. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, a counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made and has disputed the demands. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. The parties are conducting preliminary settlement discussions, however, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the indemnification circumstances, but does not expect such outcomes to result in significant losses above the amounts recorded.

(f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$124 million at March 31, 2016, consisting of LG&E's share of \$86 million and KU's share of \$38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 13 in PPL's, LKE's, LG&E's and KU's 2015 Form 10-K for additional information on the OVEC power purchase contract.

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



guarantees is remote.

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

## **11. Related Party Transactions**

### **PLR Contracts/Purchase of Accounts Receivable (*PPL Electric*)**

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus was awarded a portion of the PLR generation supply through these competitive solicitations. The purchases from PPL EnergyPlus are included in PPL Electric's Statements of Income as "Energy purchases from affiliate" through May 31, 2015, the period through which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. Wholesale suppliers are required to post collateral with PPL Electric when: (a) the market price of electricity to be delivered by the wholesale suppliers exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing.

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

PPL Services and LKS provide their respective PPL and LKE subsidiaries and each other with administrative, management and support services. PPL EU Services provides the majority of financial, supply chain, human resources and facilities management services primarily to PPL Electric. PPL Services provides certain corporate functions to PPL Electric. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended March 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	<b>Three Months</b>	
	<b>2016</b>	<b>2015</b>
PPL Electric from PPL Services	\$ 37	\$ 30
LKE from PPL Services	5	4
PPL Electric from PPL EU Services	17	15
LG&E from LKS	47	51
KU from LKS	56	56

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

**Intercompany Borrowings** (*LKE*)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. At March 31, 2016 and December 31, 2015, \$147 million and \$54 million were outstanding and were reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at March 31, 2016 and December 31, 2015 were 1.94% and 1.74%. Interest on the revolving line of credit was not significant for the three months ended March 31, 2016 and 2015.

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

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

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

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

(*PPL*)

"Other Income (Expense) - net" for the three months ended March 31, 2016 and 2015 consisted primarily of gains on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 14 for additional information on these derivatives.

### 13. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2016 and 2015, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2015 Form 10-K for information on the levels in the fair value hierarchy.

#### Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	March 31, 2016			December 31, 2015				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL</b>								
Assets								
Cash and cash equivalents	\$814	\$814			\$836	\$836		
Restricted cash and cash equivalents	32	32			33	33		
(a) Price risk management assets								
(b):								
Foreign currency	249		\$249		209		\$209	

contracts									
Cross-currency swaps	188		188		86		86		
Total price risk management assets	437		437		295		295		
Auction rate securities (c)	2			\$ 2	2			\$ 2	
Total assets	\$1,285	\$ 846	\$ 437	\$ 2	\$1,166	\$ 869	\$ 295	\$ 2	

## Liabilities

## Price risk management liabilities (b):

Interest rate swaps	\$95		\$95		\$71		\$71		
Foreign currency contracts	3		3		1		1		
Total price risk management liabilities	\$98		\$98		\$72		\$72		

**PPL Electric**

## Assets

Cash and cash equivalents	\$34	\$ 34			\$47		\$47		
Restricted cash and cash equivalents (a)	2	2			2		2		
Total assets	\$36	\$ 36			\$49		\$49		

**LKE**

## Assets

Cash and cash equivalents	\$28	\$ 28			\$30		\$30		
Cash collateral posted to counterparties (d)	8	8			9		9		
Total assets	\$36	\$ 36			\$39		\$39		

## Liabilities

## Price risk management liabilities:

Interest rate swaps	\$53		\$53		\$47		\$47		
Total price risk management liabilities	\$53		\$53		\$47		\$47		

**LG&E**

Assets

Cash and cash equivalents	\$11	\$11	\$19	\$19
Cash collateral posted to counterparties (d)	8	8	9	9
Total assets	\$19	\$19	\$28	\$28

Liabilities

Price risk management liabilities:				
Interest rate swaps	\$53	\$53	\$47	\$47
Total price risk management liabilities	\$53	\$53	\$47	\$47

55

	March 31, 2016			December 31, 2015				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b><u>KU</u></b>								
Assets								
Cash and								
cash	\$17	\$17		\$11	\$11			
equivalents								
Total assets	\$17	\$17		\$11	\$11			

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

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

(c) Included in "Other noncurrent assets" on the Balance Sheets.

(d) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

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

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

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

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

	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Carrying Amount (a)</b>	<b>Fair Value</b>	<b>Carrying Amount (a)</b>	<b>Fair Value</b>
PPL	\$18,559	\$21,046	\$19,048	\$21,218
PPL Electric	2,829	3,216	2,828	3,088
LKE	5,088	5,625	5,088	5,384
LG&E	1,642	1,779	1,642	1,704
KU	2,326	2,587	2,326	2,467

(a)

Amounts are net of debt issuance costs.

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

#### 14. Derivative Instruments and Hedging Activities

##### Risk Management Objectives

*(All Registrants)*

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



attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

## **Market Risk**

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

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

### *Interest rate risk*

PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.

PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

### *Foreign currency risk*

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

### *Commodity price risk*

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

PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.

LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

*Volumetric risk*

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO - ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2015 Form 10-K for additional information on revenue recognition under RIIO - ED1.

PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

### *Equity securities price risk*

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

PPL is exposed to equity securities price risk from future stock sales and/or purchases.

### **Credit Risk**

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

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

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

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

### **Master Netting Arrangements**

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

PPL had an obligation to return \$15 million of cash collateral under master netting arrangements at March 31, 2016 and no obligation to return cash collateral under master netting arrangements at December 31, 2015.

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

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

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

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

## **Interest Rate Risk**

*(All Registrants)*

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

Cash Flow Hedges

*(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At March 31, 2016, PPL held an aggregate notional value in interest rate swap contracts of \$300 million that range in maturity through 2026.

At March 31, 2016, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$1.3 billion that range in maturity from 2016 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2016 and 2015, PPL had no hedge ineffectiveness associated with interest rate derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring. For the three months ended March 31, 2016, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges and no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges for the three months ended March 31, 2015.

At March 31, 2016, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were insignificant. Amounts are reclassified as the hedged interest expense is recorded.

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

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

Statements of Income at the time the underlying hedged interest expense is recorded. At March 31, 2016, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

## **Foreign Currency Risk**

*(PPL)*

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

### Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2016 had a notional amount of £116 million (approximately \$180 million based on contracted rates). The settlement dates of these contracts range from April 2016 through June 2016.

At March 31, 2016, PPL had \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to \$19 million at December 31, 2015.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2016, the total exposure hedged by PPL was approximately £2.0 billion (approximately \$3.1 billion based on contracted rates). These contracts had termination dates ranging from April 2016 through November 2018.

**Accounting and Reporting**

*(All Registrants)*

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

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

*(PPL)*

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

<b>March 31, 2016</b>		<b>December 31, 2015</b>	
<b>Derivatives designated as</b>	<b>Derivatives not designated</b>	<b>Derivatives designated as</b>	<b>Derivatives not designated</b>

	<b>hedging instruments</b>		<b>as hedging instruments</b>		<b>hedging instruments</b>		<b>as hedging instruments</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Current:</b>								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)		\$ 42		\$ 6		\$ 24		\$ 5
Cross-currency swaps (b)	\$71				\$35			
Foreign currency								
contracts	12		\$ 100	3	10		\$ 94	1
Total current	83	42	100	9	45	24	94	6
<b>Noncurrent:</b>								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)				47				42
Cross-currency swaps (b)	117				51			
Foreign currency								
contracts			137				105	
Total noncurrent	117		137	47	51		105	42
Total derivatives	\$200	\$ 42	\$ 237	\$ 56	\$96	\$ 24	\$ 199	\$ 48

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

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the three months ended March 31.



Derivative Relationships	2016		Location of Gain (Loss) Recognized in Income	2015	
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	2016		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Income (Effective Effectiveness Testing))	2015
Cash Flow Hedges:					
Interest rate swaps	\$ (18)	\$ (19)	Interest expense	\$ (1)	\$ (4)
Cross-currency swaps	113	21	Interest expense	1	1
			Other income (expense) - net	97	17
Commodity contracts			Discontinued operations		7
Total	\$ 95	\$ 2		\$ 97	\$ 21
Net Investment Hedges:					
Foreign currency contracts	\$ 3	\$ 16			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2016	2015
Foreign currency contracts	Other income (expense) - net	\$ 60	\$ 88
Interest rate swaps	Interest expense	(2)	(2)

Total	\$ 58	\$ 86
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<b>Derivatives Designated as Hedging Instruments</b>	<b>Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets</b>	<b>2016</b>	<b>2015</b>
Interest rate swaps	Regulatory assets- noncurrent		\$(56)
<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets</b>	<b>2016</b>	<b>2015</b>
Interest rate swaps	Regulatory assets - noncurrent	\$(6)	\$(4)

*(LKE)*

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended March 31.

<b>Derivative Instruments</b>	<b>Location of Gain (Loss) Recognized in Regulatory Assets</b>	<b>2016</b>	<b>2015</b>
Interest rate swaps	Regulatory assets - noncurrent		\$(56)

*(LG&E)*

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended March 31.

<b>Derivative Instruments</b>	<b>Location of Gain (Loss) Recognized in Regulatory Assets</b>	<b>2016</b>	<b>2015</b>
Interest rate swaps	Regulatory assets - noncurrent		\$(28)

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended March 31.

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Regulatory Assets	2016 2015
Interest rate swaps	Regulatory assets - noncurrent	\$(28)

(LKE and LG&amp;E)

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

	March 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 6		\$ 5	
Total current	6		5	
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	47		42	
Total noncurrent	47		42	
Total derivatives	\$ 53		\$ 47	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended March 31.

Derivative Instruments	Location of Gain (Loss) Recognized in	
	Income on Derivatives	2016 2015

Interest rate swaps	Interest expense	\$ (2)	\$ (2)
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Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	2016	2015
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Interest rate swaps	Regulatory assets - noncurrent	\$ (6)	\$ (4)
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*(PPL, LKE, LG&E and KU)*

### Offsetting Derivative Instruments

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

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

Assets				Liabilities			
Eligible for Offset				Eligible for Offset			
Cash				Cash			
Derivative Collateral				Derivative Collateral			
Gross Instruments	Received	Net		Gross Instruments	Pledged	Net	

**March 31, 2016****Treasury Derivatives**

PPL	\$437	\$ 45	\$ 15	\$377	\$98	\$ 45	\$ 8	\$45
LKE	53	8	45					
LG&E	53	8	45					

**December 31, 2015****Treasury Derivatives**

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

**Credit Risk-Related Contingent Features**

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

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

*(PPL, LKE and LG&E)*

At March 31, 2016, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	<b>PPL</b>	<b>LKE</b>	<b>LG&amp;E</b>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 31	\$ 30	\$ 30
Aggregate fair value of collateral posted on these derivative instruments	8	8	8
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	23	22	22

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

## 15. Goodwill

*(PPL)*

The change in the carrying amount of goodwill for the three months ended March 31, 2016 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

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

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

	<b>PPL</b>	<b>LKE</b>	<b>LG&amp;E</b>	<b>KU</b>
Balance at December 31, 2015	\$ 586	\$535	\$ 175	\$360
Accretion	6	6	2	4
Effect of foreign currency exchange rates	(4)			
Obligations settled	(1)	(1)	(1)	
Balance at March 31, 2016	\$ 587	\$540	\$ 176	\$364

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

**17. Accumulated Other Comprehensive Income (Loss)***(PPL)*

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

	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains (losses) Available- for-sale securities</b>	<b>Qualifying derivatives</b>	<b>Equity investees' AOCI</b>	<b>Defined benefit plans Prior Actuarial service costs (loss)</b>	<b>Total</b>
<b>December 31, 2015</b>	\$ (520)		\$ (7)		\$ (6) \$ (2,195)	\$ (2,728)
Amounts arising during the period	(464)		80			(384)

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Reclassifications from AOCI			(78)		31	(47)	
Net OCI during the period	(464)		2		31	(431)	
<b>March 31, 2016</b>	<b>\$ (984)</b>		<b>\$ (5)</b>		<b>\$ (6)</b>	<b>\$ (2,164)</b>	<b>\$ (3,159)</b>
<b>December 31, 2014</b>	<b>\$ (286)</b>	<b>\$ 201</b>	<b>\$ 20</b>	<b>\$ 1</b>	<b>\$ 3</b>	<b>\$ (2,213)</b>	<b>\$ (2,274)</b>
Amounts arising during the period	(66)	5	6		(1)	(56)	
Reclassifications from AOCI		(1)	(17)	(1)	38	19	
Net OCI during the period	(66)	4	(11)	(1)	37	(37)	
<b>March 31, 2015</b>	<b>\$ (352)</b>	<b>\$ 205</b>	<b>\$ 9</b>	<b>\$</b>	<b>\$ 3</b>	<b>\$ (2,176)</b>	<b>\$ (2,311)</b>

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the three month periods ended March 31. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 9 for additional information.

<b>Details about AOCI</b>	<b>Three Months</b>		<b>Affected Line Item on the</b>
	<b>2016</b>	<b>2015</b>	<b>Statements of Income</b>
Available-for-sale securities		\$ 2	Other Income (Expense) - net
Total Pre-tax		2	
Income Taxes		(1)	
Total After-tax		1	
Qualifying derivatives			
Interest rate swaps	\$ (1)	(4)	Interest Expense
Cross-currency swaps	97	17	Other Income (Expense) - net
	1	1	Interest Expense
Commodity contracts		7	Discontinued operations
Total Pre-tax	97	21	
Income Taxes	(19)	(4)	
Total After-tax	78	17	



Details about AOCI	Three Months		Affected Line Item on the Statements of Income
	2016	2015	
Equity investees' AOCI		2	Other Income (Expense) - net
Total Pre-tax		2	
Income Taxes		(1)	
Total After-tax		1	
Defined benefit plans			
Net actuarial loss	(40)	(51)	
Total Pre-tax	(40)	(51)	
Income Taxes	9	13	
Total After-tax	(31)	(38)	
Total reclassifications during the period	\$ 47	\$ (19)	

## 18. New Accounting Guidance Pending Adoption

*(All Registrants)*

### Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. Public business entities may early adopt this guidance in annual reporting periods beginning after December 15, 2016. The Registrants expect to adopt this guidance effective January 1, 2018.

The Registrants are currently assessing the impact of adopting this guidance, as well as the transition method they will use.

### Accounting for Leases

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

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

The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance.

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

*(All Registrants)*

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

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2015 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

"Overview" provides a description of each Registrant's business strategy, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.

"Results of Operations" for PPL provides a detailed analysis of earnings by segment, and for PPL Electric, LKE, LG&E and KU, includes a summary of earnings. For all Registrants, "Non-GAAP Financial Measures", "Earnings from Ongoing Operations" and "Margins" provide explanations of non-GAAP measures used and reconciliations to the most directly comparable GAAP measure. "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2016 with the same period in 2015.

"Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.

"Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

**Overview**

**Introduction**

*(PPL)*

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2015, PPL and PPL Energy Supply completed the spinoff of PPL Energy Supply which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See Note 8 in PPL's 2015 Form 10-K for additional information.

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PPL's principal subsidiaries are shown below (\* denotes SEC registrant).

**PPL Corporation\***

**PPL Capital  
Funding**

Provides  
financing for the  
operations of PPL  
and certain  
subsidiaries

**PPL Global**

Engages in the  
regulated  
distribution of  
electricity in the  
U.K.

**LKE\***

**PPL  
Electric\***

Engages in  
the regulated  
transmission  
and  
distribution of  
electricity in  
Pennsylvania

**LG&E\***

Engages in the  
regulated  
generation,  
transmission,  
distribution and  
sale of electricity  
and distribution  
and sale of natural  
gas in Kentucky

**KU\***

Engages in the  
regulated generation,  
transmission,  
distribution and sale  
of electricity,  
primarily in  
Kentucky

**U.K.  
Regulated  
Segment**

**Kentucky  
Regulated  
Segment**

**Pennsylvania  
Regulated  
Segment**

PPL's reportable segments' results primarily represent the results of the Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment has no related Subsidiary Registrant.

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

*(PPL Electric)*

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

*(LKE)*

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

*(LG&E)*

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

*(KU)*

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, the VSCC and the Tennessee Regulatory Authority, and certain of its transmission and



wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

## **Business Strategy**

*(All Registrants)*

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL completed its strategic transformation to a fully regulated business model consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base and RAV, as applicable, driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through 2020 at PPL Electric.

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



Although rate base growth in the domestic utilities is expected to result in strong earnings growth for the foreseeable future, PPL does not expect significant earnings growth from the U.K. Regulated segment under the RIIO-ED1 price control period, which began on April 1, 2015. Although the U.K. Regulated segment also projects strong RAV growth, earnings from this segment are expected to be relatively flat from 2015 to 2017 during the transition to RIIO-ED1. Higher revenues resulting from the fast-track bonus are partially offset by higher levels of revenue profiling in the prior price control period (DPCR5) and a lower return on regulatory equity. In addition, starting in 2017, the amount of incentive revenues WPD is able to earn is expected to decline as a result of more stringent reliability and customer service targets established by Ofgem under RIIO-ED1. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2015 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options, and swaps. See "Financial Condition - Risk Management" below for further information. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. PPL's exposure to changes in the value of the GBP versus the U.S. dollar related to budgeted earnings of the U.K. Regulated segment is hedged 93%, 89% and 41% for 2016, 2017 and 2018.

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

*(PPL)*

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

## Financial and Operational Developments

### Earnings *(PPL)*

PPL's earnings by reportable segments for the three month period ended March 31 were as follows:

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>
U.K. Regulated	\$289	\$375	\$ (86)
Kentucky Regulated	112	109	3
Pennsylvania Regulated	94	87	7
Corporate and Other (a)	(14)	(19)	5
Discontinued Operations (b)		95	(95)
Net Income	\$481	\$647	\$ (166)

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

As a result of the spinoff of PPL Energy Supply, substantially representing PPL's former Supply segment, the (b)earnings of the Supply segment prior to the spinoff are included in Discontinued Operations. See Note 8 to the Financial Statements for additional information.

PPL's Earnings from Ongoing Operations by reportable segment for the three month period ended March 31 were as follows:

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>

U.K. Regulated	\$265	\$336	\$ (71)
Kentucky Regulated	112	109	3
Pennsylvania Regulated	94	87	7
Corporate and Other (a)	(13)	(13)	
Earnings from Ongoing Operations	\$458	\$519	\$ (61)

See "Non-GAAP Financial Measures" below for PPL's definition of Earnings from Ongoing Operations, as well as a reconciliation of this non-GAAP financial measure to Net Income.

See "Results of Operations" below for further discussion of PPL's results of operations, details of special items by reportable segments and analysis of the consolidated results of operations.

### 2016 Outlook

*(PPL)*

Higher earnings from ongoing operations are expected in 2016 compared with 2015. This increase is primarily attributable to increases in the Kentucky Regulated and Pennsylvania Regulated segments. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

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

Excluding special items, relatively flat earnings are projected in 2016 compared with 2015, due to higher gross margins and lower operation and maintenance expense, including pension expense, offset by higher financing costs, depreciation, taxes and other expenses and lower GBP to U.S. dollar exchange rates.

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

Excluding special items, higher earnings are projected in 2016 compared with 2015, primarily driven by electric and gas base rate increases effective July 1, 2015, and higher returns on additional environmental capital investments, partially offset by higher depreciation and financing costs.

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

Excluding special items, higher earnings are projected in 2016 compared with 2015, primarily driven by higher base electricity rates for distribution effective January 1, 2016, and higher transmission margins, partially offset by higher depreciation, higher financing costs and a benefit received in 2015 from the release of a gross receipts tax reserve.

*(PPL's Corporate and Other Category)*

Excluding special items, costs are projected to be relatively flat in 2016 compared with 2015.

*(All Registrants)*

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2015 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

#### Other Financial and Operational Developments

*(PPL)*

*U.K. Membership in European Union*

Significant uncertainty exists concerning the outcome of the forthcoming June 23, 2016 referendum in the U.K. as to whether the U.K. will remain a member of the European Union and the impact that outcome could have on the U.S. dollar to GBP foreign currency exchange rate, RPI and interest rates in the U.K. PPL is well-hedged against certain short-term fluctuations that may occur in the value of the GBP versus the U.S. dollar. As it relates to budgeted earnings, PPL's 2016 foreign currency exposure is 93% hedged at an average rate of \$1.54 per GBP. PPL, however, cannot predict the long-term impact that a decision by the U.K. to leave the European Union would have on PPL's financial condition or results of operations, although such impact could be significant.

*Regulatory Requirements*

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

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs, ELGs, MATS and the Clean Power Plan. See Note 6, Note 10 and Note 16 to the Financial Statements for a discussion of the other significant environmental matters.

*(All Registrants)*

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

*(PPL)*

*Discontinued Operations*

The operations of PPL's Supply segment prior to the June 1, 2015 spinoff are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the March 2015 Statement of Income.



See Note 8 to the Financial Statements for additional information related to the spinoff of PPL Energy Supply, including the components of Discontinued Operations.

#### *U.K. Distribution Revenue Reduction*

In December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost will occur in the regulatory year beginning April 1, 2016. Under GAAP, WPD does not record a receivable for under recovery of regulated income (which this reduction represents). As a result, earnings for the U.K. Regulated segment were adversely affected by \$15 million in 2015. PPL projects earnings in 2016 will be positively affected by \$32 million and earnings for 2017 will be positively affected by \$17 million.

#### *Discount Rate Change for U.K. Pension Plans*

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost. For the three months ended March 31, 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of \$11 million (\$9 million after-tax or \$0.01 per share). Based on current estimates, PPL expects this change to reduce 2016 net periodic defined benefit costs recognized on PPL's Statement of Income by \$44 million (\$36 million after-tax or \$0.05 per share). Assuming interest rates continue to rise, the benefit is highest in the initial year and then falls over time as the additional actuarial losses on liabilities are amortized. See "Application of Critical Accounting Policies-Defined Benefits" in PPL's 2015 Form 10-K for additional information.

### **Results of Operations**

*(PPL)*

The discussion for PPL provides a review of results by reportable segment. The "Non-GAAP Financial Measures" discussion provides explanations of non-GAAP financial measures and a reconciliation of non-GAAP financial measures to the most comparable GAAP measure. The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2016 with the same period in 2015. "Segment Earnings, Non-GAAP Financial Measures and Statement of Income

Analysis" is presented separately for PPL.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

*(Subsidiary Registrants)*

The discussion for each of PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three months ended March 31, 2016 with the same period in 2015. "Earnings, Margins and Statement of Income Analysis" is presented separately for PPL Electric, LKE, LG&E and KU.

*(All Registrants)*

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



**PPL Segment Earnings, Non-GAAP Financial Measures and Statement of Income Analysis****Segment Earnings**U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and allocated financing costs. The U.K. Regulated segment represents 60% of PPL's Net Income for the three months ended March 31, 2016 and 41% of PPL's assets at March 31, 2016.

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

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>
Operating revenues	\$595	\$697	\$ (102)
Other operation and maintenance	97	110	(13)
Depreciation	60	59	1
Taxes, other than income	35	36	(1)
Total operating expenses	192	205	(13)
Other Income (Expense) - net	61	88	(27)
Interest Expense	106	100	6
Income Taxes	69	105	(36)
Net Income	289	375	(86)
Less: Special Items	24	39	(15)
Earnings from Ongoing Operations	\$265	\$336	\$ (71)

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

March 31.

	Income Statement Line Item	<b>Three Months</b>	
		<b>2016</b>	<b>2015</b>
	Other Income		
Foreign currency-related economic hedges, net of tax of (\$13), (\$20) (a)	(Expense)-net	\$ 24	\$ 37
WPD Midlands acquisition-related adjustment, net of tax of \$0, (\$1)	Other operation and maintenance		2
Total		\$ 24	\$ 39

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

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	<b>Three Months</b>
U.K.	
Gross margins	\$ (69)
Other operation and maintenance	11
Depreciation	(4)
Interest expense	(12)
Other	1
Income taxes	22
U.S.	
Interest expense and other	(1)
Income taxes	1
Foreign currency exchange, after-tax	(20)
Earnings from Ongoing Operations	(71)
Special items, after-tax	(15)
Net Income	\$ (86)

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U.K.

· See "Non-GAAP Financial Measures - Margins - Changes in Margins" for an explanation of U.K. Gross Margins.

Lower other operation and maintenance primarily due to \$22 million from lower pension expense, partially offset by \$8 million from higher network maintenance expense.

· Lower income taxes primarily due to lower pre-tax income.

#### Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 23% of PPL's Net Income for the three months ended March 31, 2016 and 36% of PPL's assets at March 31, 2016.

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

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>
Operating revenues	\$826	\$899	\$ (73)
Fuel	198	253	(55)
Energy purchases	66	92	(26)
Other operation and maintenance	202	209	(7)
Depreciation	99	95	4
Taxes, other than income	15	14	1
Total operating expenses	580	663	(83)
Other Income (Expense) - net	(1)	(1)	
Interest Expense	65	55	10
Income Taxes	68	71	(3)
Net Income	112	109	3

Less: Special Items (a)			
Earnings from Ongoing Operations	\$ 112	\$ 109	\$ 3

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

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

	<b>Three Months</b>
Kentucky Gross Margins	\$ 3
Other operation and maintenance	7
Depreciation	1
Taxes, other than income	(1)
Interest Expense	(10)
Income Taxes	3
Net Income	\$ 3

See "Non-GAAP Financial Measures - Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.

Higher interest expense primarily due to the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced by LKE in November 2015.

Lower other operation and maintenance primarily due to lower coal plant operations and maintenance expense as a result of units retired in 2015 at the Cane Run and Green River plants.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. The Pennsylvania Regulated segment represents 20% of PPL's Net Income for the three months ended March 31, 2016 and 23% of PPL's assets at March 31, 2016.

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

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>
Operating revenues	\$585	\$630	\$ (45)
Energy purchases			
External	167	227	(60)
Intersegment		9	(9)
Other operation and maintenance	150	133	17
Depreciation	59	51	8
Taxes, other than income	29	35	(6)
Total operating expenses	405	455	(50)
Other Income (Expense) - net	3	2	1
Interest Expense	33	31	2
Income Taxes	56	59	(3)
Net Income	94	87	7
Less: Special Items (a)			
Earnings from Ongoing Operations	\$94	\$87	\$ 7

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

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

	<b>Three Months</b>
Pennsylvania Gross Delivery Margins	\$ 30

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Other operation and maintenance	(18)
Depreciation	(8)
Taxes, other than income	1
Other Income (Expense) - net	1
Interest Expense	(2)
Income Taxes	3
Net Income	\$ 7

See "Non-GAAP Financial Measures - Margins - Changes in Margins" for an explanation of Pennsylvania Gross Delivery Margins.

Higher other operation and maintenance expense primarily due to \$9 million of higher corporate service costs allocated to PPL Electric, \$4 million of higher costs for additional work done by outside vendors and \$3 million of higher vegetation management expenses.

Higher depreciation expense primarily due to transmission additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.

#### Non-GAAP Financial Measures

Management's Discussion and Analysis includes financial information prepared in accordance with GAAP, as well as non-GAAP financial measures including "Earnings from Ongoing Operations" and "Gross Margins" as further described below.

#### Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure and it should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's

view of PPL's earnings performance as another criterion in making investment decisions. PPL's management also uses Earnings from Ongoing Operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items include:

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

Unrealized gains or losses on foreign currency-related economic hedges include the changes in fair value of foreign currency contracts used to economically hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts each period are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency-related economic activity.

#### Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income (Loss)" for the three month periods ended March 31.

	<b>2016</b>				
	<b>U.K.</b>	<b>KY</b>	<b>PA</b>	<b>Corporate</b>	<b>Discontinued</b>
	<b>Regulated</b>	<b>Regulated</b>	<b>Regulated</b>	<b>and Other</b>	<b>Operations</b>
					<b>Total</b>
<b>Net Income (Loss)</b>	\$289	\$ 112	\$ 94	\$ (14)	\$ 481

Less: Special Items (expense)				
benefit:				
Foreign currency-related economic hedges	24			24
Spinoff of the Supply segment			(1)	(1)
<b>Total Special Items</b>	24		(1)	23
<b>Earnings from Ongoing Operations</b>	\$265	\$ 112	\$ 94	\$ (13)
				\$ 458

	<b>2015</b>				
	<b>U.K.</b>	<b>KY</b>	<b>PA</b>	<b>Corporate</b>	<b>Discontinued</b>
	<b>Regulated</b>	<b>Regulated</b>	<b>Regulated</b>	<b>and Other</b>	<b>Operations</b>
					<b>Total</b>
<b>Net Income (Loss)</b>	\$375	\$ 109	\$ 87	\$ (19)	\$ 95
\$647					
Less: Special Items (expense)					
benefit:					
Foreign currency-related economic hedges	37				37
Spinoff of the Supply segment:					
Discontinued operations					95
Employee transitional services				(2)	(2)
Transition and transaction costs				(3)	(3)
Separation benefits				(1)	(1)
WPD Midlands acquisition-related adjustment	2				2
<b>Total Special Items</b>	39			(6)	95
128					
<b>Earnings from Ongoing Operations</b>	\$336	\$ 109	\$ 87	\$ (13)	\$
\$519					

Margins

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

"U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as National Grid connection charges and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues,



as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

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

"Pennsylvania Gross Delivery Margins" is a single financial performance measure of the electricity transmission and distribution delivery operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "Energy purchases from affiliate" in the reconciliation tables. As a result of the June 2015 spinoff of PPL Energy Supply and the formation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are reflected in "Energy Purchases" in the reconciliation tables. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

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

#### Reconciliation of Margins

The following table contains the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended March 31.

**2016 Three Months**

**2015 Three Months**

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	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$584(c)	\$ 826	\$ 585	\$ 16	\$ 2,011	\$686(c)	\$ 899	\$ 630	\$ 15	\$ 2,230
<b>Operating Expenses</b>										
Fuel		198		(1)	197		253			253
Energy purchases		66	167		233		92	227	10	329
Energy purchases from affiliate								9	(9)	
Other operation and maintenance	27	24	25	374	450	29	24	26	377	456
Depreciation		12		217	229		7		209	216
Taxes, other than income		1	28	50	79		1	33	52	86
Total Operating Expenses	27	301	220	640	1,188	29	377	295	639	1,340
<b>Total</b>	<b>\$557</b>	<b>\$ 525</b>	<b>\$ 365</b>	<b>\$ (624)</b>	<b>\$ 823</b>	<b>\$657</b>	<b>\$ 522</b>	<b>\$ 335</b>	<b>\$ (624)</b>	<b>\$ 890</b>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Excludes \$11 million of ancillary revenues for the three months ended March 31, 2016 and 2015.

Changes in Margins

The following table shows Margins by PPL's reportable segment and by component, as applicable, for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	<b>Three Months</b>		
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>
<b>U.K.</b>			
U.K.			
Gross Margins	\$557	\$657	\$ (100)
Impact of changes in foreign currency exchange rates			(31)
Change in U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ (69)
<b>Kentucky Regulated</b>			
Kentucky Gross Margins			
LG&E	\$228	\$230	\$ (2)
KU	297	292	5
LKE	\$525	\$522	\$ 3
<b>Pennsylvania Regulated</b>			

## Pennsylvania

Gross

Delivery

Margins

Distribution	\$258	\$242	\$16
Transmission	107	93	14
Total	\$365	\$335	\$30

*U.K. Gross Margins*

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased primarily due to \$69 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1 and lower volumes of \$16 million due to milder weather during the first quarter of 2016 partially offset by \$16 million of other revenue adjustments.

*Kentucky Gross Margins*

Kentucky Gross Margins increased primarily due to higher base rates of \$36 million (\$33 million at KU and \$3 million at LG&E). The increase in base rates was the result of new rates approved by the KPSC effective July 1, 2015. The increase was partially offset by a decrease in sales volumes of \$29 million (\$19 million at KU and \$10 million at LG&E) driven by milder weather during the first quarter of 2016.

*Pennsylvania Gross Delivery Margins**Distribution*

Distribution margins increased primarily due to \$39 million of higher base rates, effective January 1, 2016 as a result of the 2015 rate case, partially offset by a \$23 million unfavorable impact of milder weather in the first quarter of 2016.

*Transmission*

Transmission margins increased primarily due to returns on additional capital investments focused on replacing aging infrastructure and improving reliability.

**Statement of Income Analysis --**

**Certain Operating Revenues and Expenses Included in "Margins"**

The following Statement of Income line items and their related decreases during the period ended March 31, 2016 compared with 2015 are included above within "Margins" and are not separately discussed.

77

**Three Months**

Operating Revenues	\$ (219)
Fuel	(56)
Energy purchases	(96)

**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance for the period ended March 31, 2016 compared with 2015 was due to:

	<b>Three Months</b>
Domestic:	
LKE coal plant operations and maintenance	\$ (7)
LKE pension	(4)
PPL Electric Act 129 costs incurred	(4)
PPL Electric vegetation management	3
PPL Electric payroll-related costs	(3)
PPL Electric contractor-related expenses	5
PPL Electric storm costs	3
Corporate costs previously included in discontinued operations (a)	9
Other	5
U.K.:	
Network maintenance	8
Pension expense	(22)
Foreign currency exchange rates (b)	(5)
Other	6
Total	\$ (6)

The increase in 2016 compared with 2015 was due to corporate costs allocated to PPL Energy Supply (and (a)included in discontinued operations) prior to the spin. As a result of the spinoff on June 1, 2015, these corporate costs now remain in continuing operations.

(b)The offsetting impacts from foreign currency hedging instruments are recorded in "Other Income (Expense)- net."

**Depreciation**

Depreciation increased by \$13 million for the three months ended March 31, 2016 compared with 2015, primarily due to additional assets placed into service, primarily at the domestic utilities, net of retirements.

**Other Income (Expense) - net**

Other income (expense) - net decreased by \$27 million for the three months ended March 31, 2016 compared with 2015, primarily due to changes in realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

**Interest  
Expense**

The increase  
(decrease) in  
interest expense for  
the period ended  
March 31, 2016  
compared with  
2015 was due to:

**Three Months**

Long-term debt interest expense (a)	23
Foreign currency exchange rates Other	(5)
	(3)
Total	\$ 15

The increase was primarily due to debt issuances at WPD in November 2015, PPL Electric in October 2015 and (a) LG&E and KU in September 2015 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

**Income  
Taxes**

The increase  
(decrease) in income  
taxes for the period  
ended March 31,  
2016 compared with  
2015 was due to:

**Three Months**

Change	
in	
pre-tax	
income	
at \$	(39)
current	
period	
tax	
rates	
Impact	
of	
U.K.	8
income	
tax	
rates	
Stock-based	
compensation	(8)
(a)	
Other	1
Total	\$ (38)

During the three months ended March 31, 2016, PPL recorded an \$8 million tax benefit related to the application of (a) new stock-based compensation accounting guidance. See Note 2 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information.

**Income (Loss) from Discontinued Operations (net of income taxes)**



Income (Loss) from Discontinued Operations (net of income taxes) includes the results of operations of PPL Energy Supply, which was spun off from PPL on June 1, 2015 and substantially represents PPL's former Supply segment. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

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

#### Earnings

	Three Months Ended March 31,	
	2016	2015
Net Income	\$ 94	\$ 87
Special item, gains (losses), after-tax (a)		

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

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher distribution margins, primarily as a result of higher base rates effective January 1, 2016 and higher transmission margins, primarily due to returns on additional capital investments, partially offset by the impact of unfavorable weather, higher other operation and maintenance and higher depreciation.

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

	Three Months
Pennsylvania Gross Delivery Margins	\$ 30
Other operation and maintenance	(18)
Depreciation	(8)
Taxes, other than income	1
Other Income (Expense) - net	1
Interest Expense	(2)

Income Taxes	3
Net Income	\$ 7

### **Margins**

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Non-GAAP Financial Measures - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2016 Three Months			2015 Three Months		
	PA		Operating Income (b)	PA		Operating Income (b)
	Gross Delivery Margin	Other (a)		Gross Delivery Margin	Other (a)	
<b>Operating Revenues</b>	\$ 585		\$ 585	\$ 630		\$ 630
<b>Operating Expenses</b>						
Energy purchases	167		167	227		227
Energy purchases from affiliate				9		9
Other operation and maintenance	25	\$ 125	150	26	\$ 107	133
Depreciation		59	59		51	51
Taxes, other than income	28	1	29	33	2	35
Total Operating Expenses	220	185	405	295	160	455
Total	\$ 365	\$ (185)	\$ 180	\$ 335	\$ (160)	\$ 175

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

#### Statement of Income Analysis --

#### Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related decrease during the period ended March 31, 2016 compared with 2015 are included above within "Margins" and are not separately discussed.

Three Months	
Operating revenues	\$ (45)
Energy purchases	(60)
Energy purchases from affiliate	(9)

**Other  
Operation  
and  
Maintenance**

The increase  
(decrease) in other  
operation and  
maintenance for the  
period ended March  
31, 2016 compared  
with 2015 was due to:

**Three Months**

Corporate service \$	9
costs	
Contractor-related expenses	5
Vegetation management	3
Storm costs	3
Payroll-related costs	(3)
Act 129	(4)
Other	4
Total \$	17

**Depreciation**

Depreciation increased by \$8 million for the three months ended March 31, 2016 compared with 2015, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

**Taxes, Other Than Income**

Taxes, other than income decreased by \$6 million for the three months ended March 31, 2016 compared with 2015, primarily due to lower Pennsylvania gross receipts tax expense as a result of a decrease in retail electric revenues. This tax is included in "Pennsylvania Gross Delivery Margins."



**Interest Expense**

Interest expense increased by \$2 million for the three months ended March 31, 2016 compared with 2015, primarily due to the issuance of first mortgage bonds in October 2015.

**Income Taxes**

The increase (decrease) in income taxes for the period ended March 31, 2016 compared with 2015 was due to:

	<b>Three Months</b>
Change in pre-tax income at current period tax rates	\$ 2
Stock-based compensation (a)	(5)
Total	\$ (3)

During the three months ended March 31, 2016, PPL Electric recorded a \$5 million tax benefit related to the (a) application of new stock-based compensation accounting guidance. See Note 2 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information.

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

**Three Months Ended  
March 31,  
2016      2015**

Net		
Income	\$ 120	\$ 117

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015 and lower other operation and maintenance partially offset by lower sales volumes, due to

unfavorable weather, and higher financing costs.

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

	<b>Three Months</b>
Margins	\$ 3
Other operation and maintenance	7
Depreciation	1
Taxes, other than income	(1)
Interest expense	(11)
Income taxes	4
Total	\$ 3

### **Margins**

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

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2016 Three Months			2015 Three Months		
	Other Margins		Operating Income	Other Margins		Operating Income
	(a)		(b)	(a)		(b)
<b>Operating Revenues</b>	\$826		\$ 826	\$899		\$ 899
<b>Operating Expenses</b>						
Fuel	198		198	253		253
Energy purchases	66		66	92		92
Other operation and maintenance	24	\$ 178	202	24	\$ 185	209
Depreciation	12	87	99	7	88	95
Taxes, other than income	1	14	15	1	13	14
Total Operating Expenses	301	279	580	377	286	663
Total	\$525	\$(279)	\$ 246	\$522	\$(286)	\$ 236

(a)

Represents amounts excluded from Margins.

(b)

As reported on the Statements of Income.

**Statement of Income Analysis --****Certain Operating Revenues and Expenses included in "Margins"**

The following Statement of Income line items and their related decrease during the period ended March 31, 2016 compared with 2015 are included above within "Margins" and are not separately discussed.

**Three Months**

Operating revenues	\$ (73)
Fuel	(55)



Energy purchases (26)

**Other  
Operation  
and  
Maintenance**

The decrease in other operation and maintenance for the period ended March 31, 2016 compared with 2015 was due to:

**Three Months**

Coal plant operations and maintenance	(7)
Pension	(4)
Other	4
Total \$	(7)

**Interest Expense**

Interest expense increased \$11 million for the three months ended March 31, 2016 compared with 2015 primarily due to the September 2015 issuance of \$550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of \$500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and \$400 million of notes refinanced in November 2015.

**LG&E: Earnings, Margins and Statement of Income Analysis**

**Earnings**

**Three Months Ended  
March 31,  
2016      2015**

Net Income	\$ 56	\$ 53
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Earnings increased for the three month period in 2016 compared with 2015 primarily due to lower other operation and maintenance and lower depreciation partially offset by lower sales volumes, due to unfavorable weather, and higher financing costs.

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

<b>Three Months</b>	
Margins	\$ (2)
Other operation and maintenance	7
Depreciation	4
Taxes, other than income	(1)
Other income (expense) - net	1
Interest expense	(4)
Income taxes	(2)
Total	\$ 3

### Margins

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

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	<b>2016 Three Months</b>		<b>2015 Three Months</b>	
	<b>Margins (a)</b>	<b>Other Income (b)</b>	<b>Margins (a)</b>	<b>Other Income (b)</b>
<b>Operating Revenues</b>	\$386	\$ 386	\$439	\$ 439
<b>Operating Expenses</b>				
Fuel	78	78	103	103
Energy purchases, including affiliate	64	64	91	91
	9	\$78	11	\$85
		87		96

Other operation and maintenance						
Depreciation	6	35	41	3	39	42
Taxes, other than income	1	7	8	1	6	7
Total Operating Expenses	158	120	278	209	130	339
Total	\$228	\$(120)	\$ 108	\$230	\$(130)	\$ 100

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

### Statement of Income Analysis --

### Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related decrease during the period ended March 31, 2016 compared with 2015 are included above within "Margins" and are not separately discussed.

#### Three Months

Retail and wholesale	\$ (42)
Electric revenue from affiliate	(11)
Fuel	(25)
Energy purchases	(26)
Energy purchases from affiliate	(1)

### Other Operation and Maintenance

The decrease in other operation and maintenance for the period ended March 31, 2016 compared with 2015 was due to:

#### Three Months

Coal plant	\$ (7)
------------	--------

operations  
and  
maintenance

Other		(2)
Total	\$	(9)

83

**Interest Expense**

Interest expense increased \$4 million for the three months ended March 31, 2016 compared with 2015 primarily due to the September 2015 issuance of \$300 million of incremental First Mortgage Bonds and higher interest rates on the September 2015 issuance of \$250 million of First Mortgage Bonds used to retire the same amount of First Mortgage Bonds in November 2015.

**KU: Earnings, Margins and Statement of Income Analysis****Earnings**

**Three Months Ended  
March 31,  
2016      2015**

Net	\$ 75	\$ 78
Income		

Earnings decreased for the three month period in 2016 compared with 2015 primarily due to lower sales volumes, due to unfavorable weather, and higher financing costs partially offset by higher base electricity rates effective July 1, 2015.

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

	<b>Three Months</b>	
Margins	\$	5
Depreciation		(3)
Other income (expense)- net		(1)
Interest expense		(5)
Income taxes		1
Total	\$	(3)

Margins

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

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2016 Three Months			2015 Three Months		
	Margins	Other	Operating	Margins	Other	Operating
	(a)	(b)	(b)	(a)	(b)	(b)
<b>Operating Revenues</b>	\$453		\$ 453	\$485		\$ 485
<b>Operating Expenses</b>						
Fuel	120		120	150		150
Energy purchases, including affiliate	15		15	26		26
Other operation and maintenance	15	\$91	106	13	\$91	104
Depreciation	6	52	58	4	49	53
Taxes, other than income		7	7		7	7
Total Operating Expenses	156	150	306	193	147	340
Total	\$297	\$(150)	\$ 147	\$292	\$(147)	\$ 145

(a)

(b)

Represents amounts excluded from Margins.  
As reported on the Statements of Income.

**Statement of Income Analysis --**

**Certain Operating Revenues and Expenses included in "Margins"**

The following Statement of Income line items and their related decrease during the period ended March 31, 2016 compared with 2015 are included above within "Margins" and are not separately discussed.

	<b>Three Months</b>
Retail and wholesale	\$ (31)
Electric revenue from affiliate	(1)
Fuel	(30)
Energy purchases from affiliate	(11)

**Depreciation**

Depreciation increased \$5 million for the three months ended March 31, 2016 compared with 2015 primarily due to additional assets placed into service, net of retirements.

**Interest Expense**

Interest expense increased \$5 million for the three months ended March 31, 2016 compared with 2015 primarily due to the September 2015 issuance of \$250 million of incremental First Mortgage Bonds and higher interest rates on the September 2015 issuance of \$250 million of First Mortgage Bonds used to retire the same amount of First Mortgage Bonds in November 2015.

**Financial Condition**

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



**Liquidity and Capital Resources***(All Registrants)*

The Registrants had the following at:

	<b>PPL (a)</b>	<b>PPL Electric</b>	<b>LKE</b>	<b>LG&amp;E</b>	<b>KU</b>
<b><u>March 31, 2016</u></b>					
Cash and cash equivalents	\$ 814	\$ 34	\$28	\$ 11	\$17
Short-term debt	1,265	125	116	82	34
Notes payable with affiliate			147		
<b><u>December 31, 2015</u></b>					
Cash and cash equivalents	\$ 836	\$ 47	\$30	\$ 19	\$11
Short-term debt	916		265	142	48
Notes payable with affiliate			54		

(a) At March 31, 2016, \$452 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2015 Form 10-K for additional information on undistributed earnings of WPD.

*(PPL)*

The Statements of Cash Flows separately report the cash flows of the discontinued operations in 2015. The "Operating Activities", "Investing Activities" and "Financing Activities" sections below included only the cash flows of continuing operations.

*(All Registrants)*

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

	<b>PPL</b>	<b>PPL Electric</b>	<b>LKE</b>	<b>LG&amp;E</b>	<b>KU</b>
<b>2016</b>					
Operating activities	\$557	\$ 124	\$303	\$ 157	\$ 195
Investing activities	(661)	(215)	(219)	(109)	(110)
Financing activities	115	78	(86)	(56)	(79)
<b>2015</b>					
Operating activities	\$452	\$ (45)	\$451	\$251	\$229
Investing activities	(860)	(225)	(317)	(173)	(144)
Financing activities	(66)	91	(115)	(71)	(73)
<b>Change - Cash Provided (Used)</b>					