PPL Corp
Form 10-Q
October 30, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

| | |
|---|---|
| [X] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2015 |
| 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 Number | Registrant; State of Incorporation; Address and Telephone Number | IRS Employer Identification No. |
|---|---|---|
| 1-11459 | **PPL Corporation**<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-2758192 |
| 1-905 | **PPL Electric Utilities Corporation**<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-0959590 |
| 333-173665 | **LG&E and KU Energy LLC**<br>(Exact name of Registrant as specified in its charter) | 20-0523163 |

(Kentucky)

220 West Main Street

Louisville, KY 40202-1377

(502) 627-2000

| | | |
|---|---|---|
| 1-2893 | **Louisville Gas and Electric Company**<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky)<br>220 West Main Street<br>Louisville, KY 40202-1377<br>(502) 627-2000 | 61-0264150 |
| 1-3464 | **Kentucky Utilities Company**<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky and Virginia)<br>One Quality Street<br>Lexington, KY 40507-1462<br>(502) 627-2000 | 61-0247570 |

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

| | |
|---|---|
| Louisville Gas and Electric Company | Yes ___ No _X_ |
| Kentucky Utilities Company | Yes ___ No _X_ |

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, 672,845,584 shares outstanding at October 23, 2015. |
| PPL Electric Utilities Corporation | Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 23, 2015. |
| LG&E and KU Energy LLC | PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC. |
| Louisville Gas and Electric Company | Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 23, 2015. |
| Kentucky Utilities Company | Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 23, 2015. |

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

**PPL CORPORATION**

**PPL ELECTRIC UTILITIES CORPORATION**

**LG&E and KU Energy LLC**

**Louisville Gas and Electric Company**

**Kentucky Utilities Company**

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2015

Table of Contents

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

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

(THIS PAGE LEFT BLANK INTENTIONALLY.)

Table of Contents

**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 information technology 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 services to PPL and its subsidiaries.

***PPL WPD Limited*** - an indirect U.K. subsidiary of PPL Global. PPL WPD Limited holds a liability for a closed defined benefit pension plan and a receivable with WPD plc.

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

***Subsidiary Registrant(s)*** - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Electric, LKE, LG&E and KU.

***WPD*** - refers to WPD plc and its subsidiaries together with a sister company PPL WPD Limited.

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

***WPD plc*** - Western Power Distribution plc, formerly known as Western Power Distribution Limited, an indirect U.K. subsidiary of PPL Global. 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.

Table of Contents

***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.

***2014 Form 10-K*** - Annual Report to the SEC on Form 10-K for the year ended December 31, 2014.

***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).

***AFUDC*** - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

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

***ARO*** - asset retirement obligation.

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

***Basis*** - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

***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.

***Cane Run Unit 7*** - a natural gas combined-cycle unit in Kentucky, jointly owned by LG&E and KU, which provides electric generating capacity of 642 MW (141 MW and 501 MW to LG&E and KU).

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

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

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

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

Table of Contents

***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.

***DOJ*** - U.S. Department of Justice.

***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.

***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.

***EEI*** - Edison Electric Institute, the association that represents U.S. investor-owned electric companies.

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

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

***EPS*** - earnings per share.

***Equity Unit(s)*** - a PPL equity unit, issued in April 2011, consisting of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

***E.W. Brown*** - a generating station in Kentucky with capacity of 1,594 MW.

***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.

***FGD*** - flue-gas desulfurization, a pollution control process for the removal of sulfur dioxide from exhaust gas.

***Fitch*** - Fitch, Inc., a credit rating agency.

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

***GBP*** - British pound sterling.

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

Table of Contents

***GLT*** - Gas Line Tracker. The KPSC approved 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.

***Holdco*** - Talen Energy Holdings, Inc., a Delaware corporation, which was formed for the purposes of the June 1, 2015 spinoff of PPL Energy Supply, LLC.

***If-Converted Method*** - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after-tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied to PPL's Equity Units prior to settlement.

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

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

***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.

***NorthWestern*** - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

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

***NRC*** - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

***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.

iv

Table of Contents

***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.

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

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

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

***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*** - Reliability*First* 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.

***RJS Power*** - RJS Generation Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business contributed by its owners 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.

***RMC*** - Risk Management Committee.

***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.

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

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

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

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

Table of Contents

***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.

***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*** - PPL EnergyPlus' new name subsequent to the spinoff of PPL Energy Supply.

***Total shareowner return*** - the change in market value of a share of the Company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

***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.

***VaR*** - value-at-risk, 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.

***Volumetric risk*** - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

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

vi

Table of Contents

**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 2014 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.

- fuel supply;
- 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 customer energy use;
- availability of existing generation facilities;
- the duration of and cost associated with unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative and distributed sources of electricity generation and storage;
- collective labor bargaining negotiations;
- 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 and prices for energy and transmission services;
- competition in retail and wholesale power and natural gas markets;
- market prices of commodity inputs for ongoing capital expenditures;
- 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;
- 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;
- 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;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, 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 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
- 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.

1

Table of Contents

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

Table of Contents

**PART I. FINANCIAL INFORMATION**
**ITEM 1. Financial Statements**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**PPL Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars, except share data)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating Revenues** | **$1,878** | $1,879 | **$5,889** | $5,906 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **228** | 240 | **695** | 748 |
| Energy purchases | **177** | 173 | **676** | 683 |
| Other operation and maintenance | **482** | 467 | **1,405** | 1,382 |
| Depreciation | **226** | 233 | **658** | 688 |
| Taxes, other than income | **79** | 78 | **241** | 238 |
| Total Operating Expenses | **1,192** | 1,191 | **3,675** | 3,739 |
| **Operating Income** | **686** | 688 | **2,214** | 2,167 |
| Other Income (Expense) - net | **75** | 136 | **61** | 33 |
| Interest Expense | **221** | 213 | **645** | 637 |
| **Income from Continuing Operations Before Income Taxes** | **540** | 611 | **1,630** | 1,563 |
| Income Taxes | **144** | 201 | **432** | 534 |

| | | | | |
|---|---|---|---|---|
| **Income from Continuing Operations After Income Taxes** | **396** | 410 | **1,198** | 1,029 |
| Income (Loss) from Discontinued Operations (net of income taxes) (Note 8) | **(3)** | 87 | **(915)** | 13 |
| **Net Income** | **$393** | $497 | **$283** | $1,042 |
| **Earnings Per Share of Common Stock:** | | | | |
| Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners: | | | | |
| Basic | **$0.59** | $0.61 | **$1.78** | $1.58 |
| Diluted | **$0.59** | $0.61 | **$1.78** | $1.55 |
| Net Income Available to PPL Common Shareowners: | | | | |
| Basic | **$0.58** | $0.74 | **$0.42** | $1.60 |
| Diluted | **$0.58** | $0.74 | **$0.42** | $1.57 |
| **Dividends Declared Per Share of Common Stock** | **$0.3775** | $0.3725 | **$1.1225** | $1.1175 |
| **Weighted-Average Shares of Common Stock Outstanding (in thousands)** | | | | |
| Basic | **670,763** | 664,432 | **668,731** | 649,561 |
| Diluted | **673,702** | 666,402 | **671,254** | 665,501 |

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

3

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**PPL Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| **Net income** | **$ 393** | $ 497 | **$ 283** | $ 1,042 |
| **Other comprehensive income (loss):** | | | | |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: | | | | |
| Foreign currency translation adjustments, net of tax of ($3), ($9), ($2), ($3) | **52** | (48) | **(97)** | 80 |
| Available-for-sale securities, net of tax of $0, $1, ($9), ($20) | | (1) | **7** | 18 |
| Qualifying derivatives, net of tax of $11, $2, $4, $31 | **(19)** | (5) | **8** | (52) |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $0, $0, $4, $0 | | | **(6)** | |
| Net actuarial gain (loss), net of tax of $0, ($1), ($36), $1 | | (1) | **52** | (3) |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit): | | | | |
| Available-for-sale securities, net of tax of $0, $4, $2, $6 | | (3) | **(2)** | (5) |
| Qualifying derivatives, net of tax of ($3), $3, ($23), $4 | **10** | (12) | **20** | 2 |
| Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $1, $0 | | | **(1)** | |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $0, ($1), $0, ($3) | | 1 | | 3 |
| Net actuarial loss, net of tax of ($10), ($9), ($35), ($26) | **35** | 29 | **111** | 84 |
| **Total other comprehensive income (loss)** | **78** | (40) | **92** | 127 |
| **Comprehensive income** | **$ 471** | $ 457 | **$ 375** | $ 1,169 |

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

4

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**PPL Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 283** | $ 1,042 |
| (Income) loss from discontinued operations (net of income taxes) | **915** | (13) |
| Income from continuing operations (net of income taxes) | **1,198** | 1,029 |
| Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by operating activities - continuing operations | | |
| Depreciation | **658** | 688 |
| Amortization | **46** | 51 |
| Defined benefit plans - expense | **44** | 37 |
| Deferred income taxes and investment tax credits | **359** | 416 |
| Unrealized (gains) losses on derivatives, and other hedging activities | **(17)** | (99) |
| Adjustment to WPD line loss accrual | | 65 |
| Stock-based compensation expense | **26** | 24 |
| Other | **9** | (1) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(5)** | (59) |
| Accounts payable | **(180)** | (53) |
| Unbilled revenues | **91** | 122 |
| Fuel, materials and supplies | **60** | 7 |
| Taxes payable | **(142)** | 138 |
| Regulatory assets and liabilities, net | **46** | 7 |
| Other | **(48)** | 28 |
| Other operating activities | | |
| Defined benefit plans - funding | **(396)** | (290) |
| Settlement of interest rate swaps | **(88)** | |
| Other assets | **(42)** | 10 |

| | | |
|---|---|---|
| Other liabilities | **69** | 43 |
| Net cash provided by operating activities - continuing operations | **1,688** | 2,163 |
| Net cash provided by operating activities - discontinued operations | **343** | 465 |
| Net cash provided by operating activities | **2,031** | 2,628 |
| **Cash Flows from Investing Activities** | | |
| **Investing activities from continuing operations:** | | |
| Expenditures for property, plant and equipment | **(2,560)** | (2,602) |
| Expenditures for intangible assets | **(32)** | (36) |
| Purchase of other investments | **(15)** | |
| Proceeds from the sale of other investments | **136** | |
| Net (increase) decrease in restricted cash and cash equivalents | **5** | 12 |
| Other investing activities | **3** | (4) |
| Net cash provided by (used in) investing activities - continuing operations | **(2,463)** | (2,630) |
| Net cash provided by (used in) investing activities - discontinued operations | **(149)** | (344) |
| Net cash provided by (used in) investing activities | **(2,612)** | (2,974) |
| **Cash Flows from Financing Activities** | | |
| **Financing activities from continuing operations:** | | |
| Issuance of long-term debt | **1,137** | 296 |
| Retirement of long-term debt | | (237) |
| Issuance of common stock | **145** | 1,037 |
| Payment of common stock dividends | **(750)** | (718) |
| Net increase (decrease) in short-term debt | **(271)** | (192) |
| Other financing activities | **(30)** | (49) |
| Net cash provided by (used in) | **231** | 137 |

| | | | | |
|---|---|---|---|---|
| financing activities - continuing operations | | | | |
| Net cash provided by (used in) financing activities - discontinued operations | | **(546)** | | (166) |
| Net cash distributions to parent from discontinued operations | | **132** | | 448 |
| Net cash provided by (used in) financing activities | | **(183)** | | 419 |
| **Effect of Exchange Rates on Cash and Cash Equivalents** | | **(6)** | | 13 |
| **Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations** | | **352** | | 45 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | **(418)** | | 131 |
| Cash and Cash Equivalents at Beginning of Period | | **1,399** | | 863 |
| Cash and Cash Equivalents at End of Period | **$** | **981** | $ | 994 |

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

5

Table of Contents

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 981** | $ 1,399 |
| Short-term investments | | 120 |
| Accounts receivable (less reserve: 2015, $46; 2014, $44) | | |
| Customer | **713** | 737 |
| Other | **64** | 71 |
| Unbilled revenues | **421** | 517 |
| Fuel, materials and supplies | **321** | 381 |
| Prepayments | **86** | 75 |
| Deferred income taxes | **223** | 125 |
| Other current assets | **181** | 134 |
| Current assets of discontinued operations | | 2,600 |
| Total Current Assets | **2,990** | 6,159 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **33,752** | 30,568 |
| Less: accumulated depreciation - regulated utility plant | **5,632** | 5,361 |
| Regulated utility plant, net | **28,120** | 25,207 |
| Non-regulated property, plant and equipment | **534** | 592 |
| | **170** | 162 |

| | | |
|---|---|---|
| Less: accumulated depreciation - non-regulated property, plant and equipment | | |
| Non-regulated property, plant and equipment, net | **364** | 430 |
| Construction work in progress | **1,478** | 2,532 |
| Property, Plant and Equipment, net | **29,962** | 28,169 |
| | | |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **1,627** | 1,562 |
| Goodwill | **3,613** | 3,667 |
| Other intangibles | **672** | 668 |
| Other noncurrent assets | **382** | 322 |
| Noncurrent assets of discontinued operations | | 8,317 |
| Total Other Noncurrent Assets | **6,294** | 14,536 |
| | | |
| **Total Assets** | **$ 39,246** | $ 48,864 |

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

6

Table of Contents

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | **$ 557** | $ 836 |
| Long-term debt due within one year | **1,460** | 1,000 |
| Accounts payable | **808** | 995 |
| Taxes | **118** | 263 |
| Interest | **300** | 298 |
| Dividends | **254** | 249 |
| Customer deposits | **312** | 304 |
| Regulatory liabilities | **151** | 91 |
| Other current liabilities | **508** | 632 |
| Current liabilities of discontinued operations | | 2,775 |
| Total Current Liabilities | **4,468** | 7,443 |
| **Long-term Debt** | **17,745** | 17,173 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **3,736** | 3,227 |
| Investment tax credits | **129** | 132 |
| | **963** | 1,457 |

| | | |
|---|---|---|
| Accrued pension obligations | | |
| Asset retirement obligations | **539** | 324 |
| Regulatory liabilities | **962** | 992 |
| Other deferred credits and noncurrent liabilities | **482** | 525 |
| Noncurrent liabilities of discontinued operations | | 3,963 |
| Total Deferred Credits and Other Noncurrent Liabilities | **6,811** | 10,620 |
| | | |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| | | |
| **Equity** | | |
| Common stock - $0.01 par value (a) | **7** | 7 |
| Additional paid-in capital | **9,630** | 9,433 |
| Earnings reinvested | **2,791** | 6,462 |
| Accumulated other comprehensive loss | **(2,206)** | (2,274) |
| Total Equity | **10,222** | 13,628 |
| | | |
| **Total Liabilities and Equity** | **$ 39,246** | $ 48,864 |

(a) 780,000 shares authorized; 671,792 and 665,849 shares issued and outstanding at September 30, 2015 and December 31, 2014.

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

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**
**PPL Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| **June 30, 2015** | 669,514 | $ 7 | $ 9,564 | $ 2,654 | $ (2,284) | $ 9,941 |
| Common stock issued | 2,278 | | 72 | | | 72 |
| Stock-based compensation | | | (6) | | | (6) |
| Net income | | | | 393 | | 393 |
| Dividends and dividend equivalents | | | | (256) | | (256) |
| Other comprehensive income (loss) | | | | | 78 | 78 |
| **September 30, 2015** | 671,792 | $ 7 | $ 9,630 | $ 2,791 | $ (2,206) | $ 10,222 |
| **December 31, 2014** | 665,849 | $ 7 | $ 9,433 | $ 6,462 | $ (2,274) | $ 13,628 |
| Common stock issued | 5,943 | | 183 | | | 183 |
| Stock-based compensation | | | 14 | | | 14 |
| Net income | | | | 283 | | 283 |
| Dividends and dividend equivalents | | | | (754) | | (754) |
| | | | | (3,200) | (24) | (3,224) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Distribution of PPL Energy Supply (Note 8) | | | | | | |
| Other comprehensive income (loss) | | | | | 92 | 92 |
| **September 30, 2015** | 671,792 | $7 | $9,630 | $2,791 | $(2,206) | $10,222 |
| **June 30, 2014** | 664,018 | $7 | $9,358 | $5,768 | $(1,398) | $13,735 |
| Common stock issued | 635 | | 21 | | | 21 |
| Stock-based compensation | | | 9 | | | 9 |
| Net income | | | | 497 | | 497 |
| Dividends and dividend equivalents | | | | (248) | | (248) |
| Other comprehensive income (loss) | | | | | (40) | (40) |
| **September 30, 2014** | 664,653 | $7 | $9,388 | $6,017 | $(1,438) | $13,974 |
| **December 31, 2013** | 630,321 | $6 | $8,316 | $5,709 | $(1,565) | $12,466 |
| Common stock issued | 34,332 | 1 | 1,048 | | | 1,049 |
| Stock-based compensation | | | 24 | | | 24 |
| Net income | | | | 1,042 | | 1,042 |
| Dividends and dividend equivalents | | | | (734) | | (734) |
| Other comprehensive income (loss) | | | | | 127 | 127 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **September 30, 2014** | 664,653 | $7 | $9,388 | $6,017 | $(1,438) | $13,974 |

(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.*

8

Table of Contents

(THIS PAGE LEFT BLANK INTENTIONALLY.)

9

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**PPL Electric Utilities Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating Revenues** | **$ 519** | $ 477 | **$1,625** | $1,518 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Energy purchases | **154** | 128 | **519** | 431 |
| Energy purchases from affiliate | | 20 | **14** | 68 |
| Other operation and maintenance | **162** | 133 | **435** | 402 |
| Depreciation | **55** | 47 | **158** | 137 |
| Taxes, other than income | **27** | 25 | **87** | 80 |
| Total Operating Expenses | **398** | 353 | **1,213** | 1,118 |
| **Operating Income** | **121** | 124 | **412** | 400 |
| Other Income (Expense) - net | **1** | 3 | **5** | 6 |
| Interest Expense | **32** | 33 | **96** | 91 |
| **Income Before Income Taxes** | **90** | 94 | **321** | 315 |
| Income Taxes | **35** | 37 | **130** | 121 |
| **Net Income (a)** | **$ 55** | $ 57 | **$191** | $194 |

(a) Net income approximates comprehensive income.

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

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**PPL Electric Utilities Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash Flows from Operating Activities** | | |
| Net income | **$191** | $194 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **158** | 137 |
| Amortization | **19** | 13 |
| Defined benefit plans - expense | **13** | 10 |
| Deferred income taxes and investment tax credits | **127** | 65 |
| Other | **(9)** | (20) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **18** | (45) |
| Accounts payable | **(140)** | (25) |
| Unbilled revenues | **28** | 40 |
| Prepayments | **(17)** | (17) |
| Regulatory assets and liabilities | **46** | 19 |
| Taxes payable | **(50)** | 45 |
| Other | **13** | 2 |
| Other operating activities | | |
| Defined benefit plans - funding | **(33)** | (20) |
| Other assets | **(6)** | 8 |
| Other liabilities | **15** | 6 |
| Net cash provided by operating activities | **373** | 412 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(758)** | (700) |
| Expenditures for intangible assets | **(9)** | (25) |
| Net (increase) decrease in notes receivable from affiliates | | 150 |
| Other investing activities | **3** | 13 |
| Net cash provided by (used in) investing activities | **(764)** | (562) |
| **Cash Flows from Financing Activities** | | |
| Issuance of long-term debt | | 296 |
| Retirement of long-term debt | | (10) |
| Contributions from parent | **275** | 95 |
| Payment of common stock dividends to parent | **(140)** | (121) |
| Net increase (decrease) in short-term debt | **68** | (20) |
| Other financing activities | | (4) |

| | | |
|---|---|---|
| Net cash provided by (used in) financing activities | **203** | 236 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(188)** | 86 |
| Cash and Cash Equivalents at Beginning of Period | **214** | 25 |
| Cash and Cash Equivalents at End of Period | **$26** | $111 |

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

11

Table of Contents

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 26** | $ 214 |
| Accounts receivable (less reserve: 2015, $21; 2014, $17) | | |
| Customer | **312** | 312 |
| Other | **10** | 44 |
| Unbilled revenues | **85** | 113 |
| Materials and supplies | **34** | 43 |
| Prepayments | **27** | 10 |
| Deferred income taxes | **103** | 58 |
| Regulatory assets | **10** | 12 |
| Other current assets | **10** | 13 |
| Total Current Assets | **617** | 819 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **8,565** | 7,589 |
| Less: accumulated depreciation - regulated utility plant | **2,613** | 2,517 |
| Regulated utility plant, net | **5,952** | 5,072 |
| Construction work in | **512** | 738 |

| | | |
|---|---|---|
| progress | | |
| Property, Plant and Equipment, net | **6,464** | 5,810 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **942** | 897 |
| Intangibles | **243** | 235 |
| Other noncurrent assets | **39** | 24 |
| Total Other Noncurrent Assets | **1,224** | 1,156 |
| **Total Assets** | **$ 8,305** | $ 7,785 |

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

12

Table of Contents

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | **$ 68** | |
| Long term debt due within one year | **100** | $ 100 |
| Accounts payable | **315** | 325 |
| Accounts payable to affiliates | **36** | 70 |
| Taxes | **35** | 85 |
| Interest | **26** | 34 |
| Regulatory liabilities | **120** | 76 |
| Other current liabilities | **114** | 103 |
| Total Current Liabilities | **814** | 793 |
| **Long-term Debt** | **2,503** | 2,502 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **1,655** | 1,483 |
| Accrued pension | **149** | 212 |

| | | | | |
|---|---|---|---|---|
| obligations | | | | |
| Regulatory liabilities | | **25** | | 18 |
| Other deferred credits and noncurrent liabilities | | **69** | | 60 |
| Total Deferred Credits and Other Noncurrent Liabilities | | **1,898** | | 1,773 |
| | | | | |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | | | |
| | | | | |
| **Equity** | | | | |
| Common stock - no par value (a) | | **364** | | 364 |
| Additional paid-in capital | | **1,925** | | 1,603 |
| Earnings reinvested | | **801** | | 750 |
| Total Equity | | **3,090** | | 2,717 |
| | | | | |
| **Total Liabilities and Equity** | **$** | **8,305** | $ | 7,785 |

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2015 and December 31, 2014.

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

13

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**
**PPL Electric Utilities Corporation and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Total |
|---|---|---|---|---|---|
| **June 30, 2015** | 66,368 | $ 364 | $ 1,810 | $ 779 | $2,953 |
| Net income | | | | 55 | 55 |
| Capital contributions from PPL | | | 115 | | 115 |
| Dividends declared on common stock | | | | (33) | (33) |
| **September 30, 2015** | 66,368 | $ 364 | $ 1,925 | $ 801 | $3,090 |
| **December 31, 2014** | 66,368 | $ 364 | $ 1,603 | $ 750 | $2,717 |
| Net income | | | | 191 | 191 |
| Capital contributions from PPL (b) | | | 322 | | 322 |
| Dividends declared on common stock | | | | (140) | (140) |
| **September 30, 2015** | 66,368 | $ 364 | $ 1,925 | $ 801 | $3,090 |
| | 66,368 | $ 364 | $ 1,435 | $ 695 | $2,494 |

| | | | | | |
|---|---|---|---|---|---|
| **June 30, 2014** | | | | | |
| Net income | | | | 57 | 57 |
| Dividends declared on common stock | | | | (34) | (34) |
| **September 30, 2014** | 66,368 | $ 364 | $ 1,435 | $ 718 | $ 2,517 |
| | | | | | |
| **December 31, 2013** | 66,368 | $ 364 | $ 1,340 | $ 645 | $ 2,349 |
| Net income | | | | 194 | 194 |
| Capital contributions from PPL | | | 95 | | 95 |
| Dividends declared on common stock | | | | (121) | (121) |
| **September 30, 2014** | 66,368 | $ 364 | $ 1,435 | $ 718 | $ 2,517 |

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

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

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

14

Table of Contents

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating Revenues** | **$ 801** | $ 753 | **$ 2,414** | $ 2,409 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **228** | 240 | **695** | 748 |
| Energy purchases | **23** | 24 | **143** | 184 |
| Other operation and maintenance | **202** | 197 | **625** | 609 |
| Depreciation | **97** | 89 | **286** | 262 |
| Taxes, other than income | **14** | 13 | **43** | 39 |
| Total Operating Expenses | **564** | 563 | **1,792** | 1,842 |
| **Operating Income** | **237** | 190 | **622** | 567 |
| Other Income (Expense) - net | **(1)** | (2) | **(3)** | (6) |
| Interest Expense | **43** | 42 | **127** | 125 |
| Interest Expense with Affiliate | | | **1** | |
| **Income Before Income Taxes** | **193** | 146 | **491** | 436 |
| Income Taxes | **73** | 55 | **194** | 165 |
| **Net Income** | **$ 120** | $ 91 | **$ 297** | $ 271 |

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

15

Table of Contents

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

| | Three Months Ended September 30, 2015 | 2014 | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|---|---|
| **Net income** | **$ 120** | $ 91 | **$ 297** | $ 271 |
| **Other comprehensive income (loss):** | | | | |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: | | | | |
| Defined benefit plans: | | | | |
| Net actuarial loss, net of tax of $0, $0, $5, $1 | | | **(8)** | (2) |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit): | | | | |
| Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $1, $0 | | | **(1)** | (1) |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $0, $0, $0, $0 | | | **1** | |
| Net actuarial loss, net of tax of $0, $0, ($1), $0 | **1** | | **2** | |
| **Total other comprehensive income (loss)** | **1** | | **(6)** | (3) |
| **Comprehensive income** | **$ 121** | $ 91 | **$ 291** | $ 268 |

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

16

Table of Contents

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

| | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$297** | $271 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **286** | 262 |
| Amortization | **18** | 18 |
| Defined benefit plans - expense | **29** | 18 |
| Deferred income taxes and investment tax credits | **199** | 251 |
| Other | **29** | 11 |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(1)** | (3) |
| Accounts payable | **(34)** | 7 |
| Accounts payable to affiliates | **(7)** | (2) |
| Unbilled revenues | **19** | 49 |
| Fuel, materials and supplies | **43** | 4 |
| Income tax receivable | **132** | (28) |
| Taxes payable | | 5 |
| Accrued interest | **37** | 36 |
| Other | **(2)** | (10) |
| Other operating activities | | |
| Defined benefit plans - funding | **(66)** | (43) |
| Settlement of interest rate swaps | **(88)** | |
| Other assets | **(4)** | |
| Other liabilities | **8** | 5 |
| Net cash provided by operating activities | **895** | 851 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(928)** | (843) |
| Net (increase) decrease in notes receivable from affiliates | | 70 |
| Other investing activities | **7** | |
| Net cash provided by (used in) investing activities | **(921)** | (773) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in notes payable with affiliates | **21** | 22 |
| Issuance of long-term debt | **1,050** | |
| Net increase (decrease) in short-term debt | **(500)** | 103 |
| Debt issuance and credit facility costs | **(9)** | (3) |
| Distributions to member | **(157)** | (327) |

| | | |
|---|---|---|
| Contributions from member | **55** | 139 |
| Net cash provided by (used in) financing activities | **460** | (66) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **434** | 12 |
| Cash and Cash Equivalents at Beginning of Period | **21** | 35 |
| Cash and Cash Equivalents at End of Period | **$455** | $47 |

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

Table of Contents

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**LG&E and KU Energy LLC and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 455** | $ 21 |
| Accounts receivable (less reserve: 2015, $23; 2014, $25) | | |
| Customer | **228** | 231 |
| Other | **14** | 18 |
| Unbilled revenues | **148** | 167 |
| Fuel, materials and supplies | **260** | 311 |
| Prepayments | **23** | 28 |
| Income taxes receivable | **4** | 136 |
| Deferred income taxes | **68** | 16 |
| Regulatory assets | **27** | 25 |
| Other current assets | **5** | 3 |
| Total Current Assets | **1,232** | 956 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **11,481** | 10,014 |
| Less: accumulated depreciation - regulated utility plant | **1,094** | 1,069 |
| Regulated utility plant, net | **10,387** | 8,945 |
| | **839** | 1,559 |

| | | |
|---|---|---|
| Construction work in progress | | |
| Property, Plant and Equipment, net | **11,226** | 10,504 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **685** | 665 |
| Goodwill | **996** | 996 |
| Other intangibles | **136** | 174 |
| Other noncurrent assets | **102** | 101 |
| Total Other Noncurrent Assets | **1,919** | 1,936 |
| **Total Assets** | **$ 14,377** | $ 13,396 |

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

18

Table of Contents

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**LG&E and KU Energy LLC and Subsidiaries**
(Unaudited)
*(Millions of Dollars)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | **$ 75** | $ 575 |
| Long-term debt due within one year | **900** | 900 |
| Notes payable with affiliates | **62** | 41 |
| Accounts payable | **284** | 399 |
| Accounts payable to affiliates | **1** | 2 |
| Customer deposits | **51** | 52 |
| Taxes | **36** | 36 |
| Price risk management liabilities | **5** | 5 |
| Price risk management liabilities with affiliates | | 66 |
| Regulatory liabilities | **31** | 15 |
| Interest | **60** | 23 |
| Other current liabilities | **142** | 131 |
| Total Current Liabilities | **1,647** | 2,245 |
| **Long-term Debt** | **4,717** | 3,667 |

| | | | | |
|---|---|---|---|---|
| **Deferred Credits and Other Noncurrent Liabilities** | | | | |
| Deferred income taxes | | **1,489** | | 1,241 |
| Investment tax credits | | **128** | | 131 |
| Accrued pension obligations | | **275** | | 305 |
| Asset retirement obligations | | **488** | | 274 |
| Regulatory liabilities | | **937** | | 974 |
| Price risk management liabilities | | **45** | | 43 |
| Other deferred credits and noncurrent liabilities | | **214** | | 268 |
| Total Deferred Credits and Other Noncurrent Liabilities | | **3,576** | | 3,236 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | | | |
| **Member's equity** | | **4,437** | | 4,248 |
| **Total Liabilities and Equity** | **$** | **14,377** | $ | 13,396 |

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

19

Table of Contents

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

| | Member's Equity |
|---|---|
| **June 30, 2015** | $4,329 |
| Net income | 120 |
| Contributions from member | 35 |
| Distributions to member | (48) |
| Other comprehensive income (loss) | 1 |
| **September 30, 2015** | $4,437 |
| | |
| **December 31, 2014** | $4,248 |
| Net income | 297 |
| Contributions from member | 55 |
| Distributions to member | (157) |
| Other comprehensive income (loss) | (6) |
| **September 30, 2015** | $4,437 |
| | |
| **June 30, 2014** | $4,225 |
| Net income | 91 |
| Contributions from member | 20 |
| Distributions to member | (106) |
| **September 30, 2014** | $4,230 |
| | |
| **December 31, 2013** | $4,150 |
| Net income | 271 |
| Contributions from member | 139 |
| Distributions to member | (327) |
| Other comprehensive income (loss) | (3) |
| **September 30, 2014** | $4,230 |

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

(THIS PAGE LEFT BLANK INTENTIONALLY.)

21

Table of Contents

**CONDENSED STATEMENTS OF INCOME**
**Louisville Gas and Electric Company**
(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended September 30, 2015 | 2014 | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Retail and wholesale | **$ 349** | $ 334 | **$ 1,089** | $ 1,096 |
| Electric revenue from affiliate | **2** | 13 | **32** | 74 |
| Total Operating Revenues | **351** | 347 | **1,121** | 1,170 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **82** | 99 | **267** | 320 |
| Energy purchases | **18** | 20 | **129** | 167 |
| Energy purchases from affiliate | **9** | 3 | **17** | 11 |
| Other operation and maintenance | **87** | 94 | **286** | 286 |
| Depreciation | **40** | 39 | **122** | 116 |
| Taxes, other than income | **7** | 6 | **21** | 19 |
| Total Operating Expenses | **243** | 261 | **842** | 919 |
| **Operating Income** | **108** | 86 | **279** | 251 |
| Other Income (Expense) - net | **(1)** | | **(3)** | (3) |
| Interest Expense | **13** | 13 | **39** | 37 |
| **Income Before Income Taxes** | **94** | 73 | **237** | 211 |
| Income Taxes | **36** | 27 | **91** | 78 |
| **Net Income (a)** | **$ 58** | $ 46 | **$ 146** | $ 133 |

(a) Net income equals comprehensive income.

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

Table of Contents

**CONDENSED STATEMENTS OF CASH FLOWS**
**Louisville Gas and Electric Company**
(Unaudited)
*(Millions of Dollars)*

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash Flows from Operating Activities** | | |
| Net income | **$146** | $133 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **122** | 116 |
| Amortization | **9** | 9 |
| Defined benefit plans - expense | **10** | 7 |
| Deferred income taxes and investment tax credits | **93** | 31 |
| Other | **25** | (2) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **10** | 4 |
| Accounts receivable from affiliates | **4** | (10) |
| Accounts payable | **(14)** | 8 |
| Accounts payable to affiliates | **(1)** | (4) |
| Unbilled revenues | **13** | 27 |
| Fuel, materials and supplies | **21** | 5 |
| Income tax receivable | **74** | (2) |
| Taxes payable | **(1)** | 10 |
| Accrued interest | **9** | 9 |
| Other | **9** | 1 |
| Other operating activities | | |
| Defined benefit plans - funding | **(25)** | (12) |
| Settlement of interest rate swaps | **(44)** | |
| Other assets | **10** | 1 |
| Other liabilities | **(1)** | (4) |
| Net cash provided by operating activities | **469** | 327 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(519)** | (422) |
| Net cash provided by (used in) investing activities | **(519)** | (422) |
| **Cash Flows from Financing Activities** | | |
| Issuance of long-term debt | **550** | |
| Net increase (decrease) in short-term debt | **(264)** | 123 |
| Debt issuance and credit facility costs | **(5)** | (1) |
| Payment of common stock dividends to parent | **(81)** | (83) |
| Contributions from parent | **20** | 73 |
| Net cash provided by (used in) financing activities | **220** | 112 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **170** | 17 |
| Cash and Cash Equivalents at Beginning of Period | **10** | 8 |

| | | |
|---|---|---|
| Cash and Cash Equivalents at End of Period | **$180** | $25 |

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

23

Table of Contents

**CONDENSED BALANCE SHEETS**
**Louisville Gas and Electric Company**
(Unaudited)
*(Millions of Dollars, shares in thousands)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 180** | $ 10 |
| Accounts receivable (less reserve: 2015, $1; 2014, $2) | | |
| Customer | **97** | 107 |
| Other | **9** | 11 |
| Unbilled revenues | **63** | 76 |
| Accounts receivable from affiliates | **19** | 23 |
| Fuel, materials and supplies | **133** | 162 |
| Prepayments | **6** | 8 |
| Income taxes receivable | | 74 |
| Deferred income taxes | **23** | |
| Regulatory assets | **11** | 21 |
| Other current assets | **2** | 1 |
| Total Current Assets | **543** | 493 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **4,651** | 4,031 |
| Less: accumulated depreciation - regulated utility plant | **384** | 456 |
| Regulated utility | **4,267** | 3,575 |

| | | | | |
|---|---|---|---|---|
| plant, net | | | | |
| Construction work in progress | | **414** | | 676 |
| Property, Plant and Equipment, net | | **4,681** | | 4,251 |
| | | | | |
| **Other Noncurrent Assets** | | | | |
| Regulatory assets | | **396** | | 397 |
| Goodwill | | **389** | | 389 |
| Other intangibles | | **79** | | 97 |
| Other noncurrent assets | | **28** | | 35 |
| Total Other Noncurrent Assets | | **892** | | 918 |
| | | | | |
| **Total Assets** | **$** | **6,116** | $ | 5,662 |

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

24

Table of Contents

**CONDENSED BALANCE SHEETS**
**Louisville Gas and Electric Company**
(Unaudited)
*(Millions of Dollars, shares in thousands)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | | $ 264 |
| Long-term debt due within one year | **$ 250** | 250 |
| Accounts payable | **191** | 240 |
| Accounts payable to affiliates | **20** | 20 |
| Customer deposits | **25** | 25 |
| Taxes | **18** | 19 |
| Price risk management liabilities | **5** | 5 |
| Price risk management liabilities with affiliates | | 33 |
| Regulatory liabilities | **15** | 10 |
| Interest | **15** | 6 |
| Other current liabilities | **50** | 42 |
| Total Current Liabilities | **589** | 914 |
| **Long-term Debt** | **1,653** | 1,103 |
| **Deferred Credits and Other Noncurrent** | | |

| | | |
|---|---|---|
| **Liabilities** | | |
| Deferred income taxes | **818** | 700 |
| Investment tax credits | **35** | 36 |
| Accrued pension obligations | **34** | 57 |
| Asset retirement obligations | **147** | 66 |
| Regulatory liabilities | **439** | 458 |
| Price risk management liabilities | **45** | 43 |
| Other deferred credits and noncurrent liabilities | **97** | 111 |
| Total Deferred Credits and Other Noncurrent Liabilities | **1,615** | 1,471 |
| | | |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| | | |
| **Stockholder's Equity** | | |
| Common stock - no par value (a) | **424** | 424 |
| Additional paid-in capital | **1,541** | 1,521 |
| Earnings reinvested | **294** | 229 |
| Total Equity | **2,259** | 2,174 |
| | **$ 6,116** | $ 5,662 |

**Total Liabilities and Equity**

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2015 and December 31, 2014.

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

Table of Contents

**CONDENSED STATEMENTS OF EQUITY**
**Louisville Gas and Electric Company**
(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Total |
|---|---|---|---|---|---|
| **June 30, 2015** | 21,294 | $424 | $1,541 | $259 | $2,224 |
| Net income | | | | 58 | 58 |
| Cash dividends declared on common stock | | | | (23) | (23) |
| **September 30, 2015** | 21,294 | $424 | $1,541 | $294 | $2,259 |
| **December 31, 2014** | 21,294 | $424 | $1,521 | $229 | $2,174 |
| Net income | | | | 146 | 146 |
| Capital contributions from LKE | | | 20 | | 20 |
| Cash dividends declared on common stock | | | | (81) | (81) |
| **September 30, 2015** | 21,294 | $424 | $1,541 | $294 | $2,259 |
| **June 30, 2014** | 21,294 | $424 | $1,417 | $199 | $2,040 |
| Net income | | | | 46 | 46 |

| | | | | | |
|---|---|---|---|---|---|
| Capital contributions from LKE | | | 20 | | 20 |
| Cash dividends declared on common stock | | | | (23) | (23) |
| **September 30, 2014** | 21,294 | $424 | $1,437 | $222 | $2,083 |
| | | | | | |
| **December 31, 2013** | 21,294 | $424 | $1,364 | $172 | $1,960 |
| Net income | | | | 133 | 133 |
| Capital contributions from LKE | | | 73 | | 73 |
| Cash dividends declared on common stock | | | | (83) | (83) |
| **September 30, 2014** | 21,294 | $424 | $1,437 | $222 | $2,083 |

(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.*

(THIS PAGE LEFT BLANK INTENTIONALLY.)

27

Table of Contents

**CONDENSED STATEMENTS OF INCOME**
**Kentucky Utilities Company**
(Unaudited)
*(Millions of Dollars)*

| | **Three Months Ended September 30, 2015** | **2014** | **Nine Months Ended September 30, 2015** | **2014** |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Retail and wholesale | **$ 452** | $ 419 | **$1,325** | $1,313 |
| Electric revenue from affiliate | **9** | 3 | **17** | 11 |
| Total Operating Revenues | **461** | 422 | **1,342** | 1,324 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **146** | 141 | **428** | 428 |
| Energy purchases | **5** | 4 | **14** | 17 |
| Energy purchases from affiliate | **2** | 13 | **32** | 74 |
| Other operation and maintenance | **108** | 97 | **321** | 302 |
| Depreciation | **57** | 50 | **164** | 145 |
| Taxes, other than income | **7** | 7 | **22** | 20 |
| Total Operating Expenses | **325** | 312 | **981** | 986 |
| **Operating Income** | **136** | 110 | **361** | 338 |
| Other Income (Expense) - net | | (1) | **1** | (1) |
| Interest Expense | **20** | 19 | **58** | 58 |
| **Income Before Income Taxes** | **116** | 90 | **304** | 279 |
| Income Taxes | **44** | 34 | **115** | 106 |

| | | | | |
|---|---|---|---|---|
| **Net Income (a)** | **$ 72** | $ 56 | **$189** | $173 |

(a) Net income approximates comprehensive income.

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

28

Table of Contents

**CONDENSED STATEMENTS OF CASH FLOWS**
**Kentucky Utilities Company**
(Unaudited)
*(Millions of Dollars)*

| | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$189** | $173 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **164** | 145 |
| Amortization | **8** | 8 |
| Defined benefit plans - expense | **9** | 4 |
| Deferred income taxes and investment tax credits | **132** | 129 |
| Other | **4** | 11 |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(11)** | (8) |
| Accounts payable | **(18)** | 6 |
| Accounts payable to affiliates | **(7)** | 4 |
| Unbilled revenues | **6** | 22 |
| Fuel, materials and supplies | **22** | (1) |
| Income tax receivable | **60** | (3) |
| Taxes payable | **9** | (12) |
| Accrued interest | **19** | 18 |
| Other | **(3)** | (8) |
| Other operating activities | | |
| Defined benefit plans - funding | **(20)** | (4) |
| Settlement of interest rate swaps | **(44)** | |
| Other assets | **(9)** | (2) |
| Other liabilities | | 4 |
| Net cash provided by operating activities | **510** | 486 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(407)** | (418) |
| Other investing activities | **7** | |
| Net cash provided by (used in) investing activities | **(400)** | (418) |
| **Cash Flows from Financing Activities** | | |
| Issuance of long-term debt | **500** | |
| Net increase (decrease) in short-term debt | **(236)** | (20) |
| Debt issuance and credit facility costs | **(4)** | (1) |
| Payment of common stock dividends to parent | **(106)** | (112) |
| Contributions from parent | | 66 |
| Net cash provided by (used in) financing activities | **154** | (67) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **264** | 1 |
| Cash and Cash Equivalents at Beginning of Period | **11** | 21 |

| | | |
|---|---|---|
| Cash and Cash Equivalents at End of Period | **$275** | $22 |

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

Table of Contents

**CONDENSED BALANCE SHEETS**
**Kentucky Utilities Company**
(Unaudited)
*(Millions of Dollars, shares in thousands)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 275** | $ 11 |
| Accounts receivable (less reserve: 2015, $2; 2014, $2) | | |
| Customer | **131** | 124 |
| Other | **5** | 6 |
| Unbilled revenues | **85** | 91 |
| Fuel, materials and supplies | **127** | 149 |
| Prepayments | **7** | 10 |
| Income taxes receivable | | 60 |
| Deferred income taxes | **30** | 2 |
| Regulatory assets | **16** | 4 |
| Other current assets | **3** | 2 |
| Total Current Assets | **679** | 459 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **6,828** | 5,977 |
| Less: accumulated depreciation - regulated utility plant | **710** | 611 |
| Regulated utility plant, net | **6,118** | 5,366 |
| Construction work in | **421** | 880 |

| | | | | |
|---|---|---|---|---|
| progress | | | | |
| Property, Plant and Equipment, net | | **6,539** | | 6,246 |
| **Other Noncurrent Assets** | | | | |
| Regulatory assets | | **289** | | 268 |
| Goodwill | | **607** | | 607 |
| Other intangibles | | **57** | | 77 |
| Other noncurrent assets | | **61** | | 58 |
| Total Other Noncurrent Assets | | **1,014** | | 1,010 |
| **Total Assets** | **$** | **8,232** | $ | 7,715 |

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

30

Table of Contents

**CONDENSED BALANCE SHEETS**
**Kentucky Utilities Company**
(Unaudited)
*(Millions of Dollars, shares in thousands)*

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | | $ 236 |
| Long-term debt due within one year | **$ 250** | 250 |
| Accounts payable | **77** | 141 |
| Accounts payable to affiliates | **41** | 47 |
| Customer deposits | **26** | 27 |
| Taxes | **23** | 14 |
| Price risk management liabilities with affiliates | | 33 |
| Regulatory liabilities | **16** | 5 |
| Interest | **30** | 11 |
| Other current liabilities | **53** | 41 |
| Total Current Liabilities | **516** | 805 |
| **Long-term Debt** | **2,341** | 1,841 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **1,048** | 884 |
| Investment tax credits | **93** | 95 |

| | | | | |
|---|---|---|---|---|
| Accrued pension obligations | | **44** | | 59 |
| Asset retirement obligations | | **341** | | 208 |
| Regulatory liabilities | | **498** | | 516 |
| Other deferred credits and noncurrent liabilities | | **63** | | 101 |
| Total Deferred Credits and Other Noncurrent Liabilities | | **2,087** | | 1,863 |
| | | | | |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | | | |
| | | | | |
| **Stockholder's Equity** | | | | |
| Common stock - no par value (a) | | **308** | | 308 |
| Additional paid-in capital | | **2,596** | | 2,596 |
| Accumulated other comprehensive income (loss) | | **(1)** | | |
| Earnings reinvested | | **385** | | 302 |
| Total Equity | | **3,288** | | 3,206 |
| | | | | |
| **Total Liabilities and Equity** | **$** | **8,232** | $ | 7,715 |

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2015 and December 31, 2014.

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

Table of Contents

**CONDENSED STATEMENTS OF EQUITY**
**Kentucky Utilities Company**
(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|
| **June 30, 2015** | 37,818 | $ 308 | $ 2,596 | $ 338 | $ (1) | $3,241 |
| Net income | | | | 72 | | 72 |
| Cash dividends declared on common stock | | | | (25) | | (25) |
| **September 30, 2015** | 37,818 | $ 308 | $ 2,596 | $ 385 | $ (1) | $3,288 |
| | | | | | | |
| **December 31, 2014** | 37,818 | $ 308 | $ 2,596 | $ 302 | | $3,206 |
| Net income | | | | 189 | | 189 |
| Cash dividends declared on common stock | | | | (106) | | (106) |
| Other comprehensive income (loss) | | | | | $ (1) | (1) |
| **September 30, 2015** | 37,818 | $ 308 | $ 2,596 | $ 385 | $ (1) | $3,288 |
| | | | | | | |
| **June 30, 2014** | 37,818 | $ 308 | $ 2,571 | $ 261 | | $3,140 |
| Net income | | | | 56 | | 56 |
| Cash dividends declared on common stock | | | | (26) | | (26) |
| **September 30, 2014** | 37,818 | $ 308 | $ 2,571 | $ 291 | | $3,170 |
| | | | | | | |
| **December 31, 2013** | 37,818 | $ 308 | $ 2,505 | $ 230 | $ 1 | $3,044 |
| Net income | | | | 173 | | 173 |
| Capital contributions from LKE | | | 66 | | | 66 |
| Cash dividends declared on common stock | | | | (112) | | (112) |
| Other comprehensive income (loss) | | | | | (1) | (1) |
| **September 30, 2014** | 37,818 | $ 308 | $ 2,571 | $ 291 | $ | $3,170 |

(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.*

32

Table of Contents

## 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, 2014 is derived from that Registrant's 2014 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 2014 Form 10-K. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015 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 September 30, 2015 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. PPL Energy Supply's assets and liabilities have been reclassified on the Balance Sheet at December 31, 2014 to assets and liabilities of discontinued operations. The assets and liabilities were distributed and removed from PPL's Balance Sheets in the second quarter of 2015. In addition, the Statements of Cash Flows separately report 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 2014 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 and nine months ended September 30, 2015, PPL Electric purchased $361 million and $968 million of accounts receivable from unaffiliated third parties. During the three and nine months ended September 30, 2014, PPL Electric purchased $260 million and $874 million of accounts receivable from unaffiliated third parties and $77 million and $261 million from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for the nine months ended September 30, 2015 were $146 million and include purchases through May 31, 2015, which is the period during 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.

**Depreciation** *(PPL)*

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years. For the three and nine months ended September 30, 2015, this change in useful lives resulted in lower depreciation of $22 million ($17 million after-tax or $0.03 per share) and $64 million ($50 million after-tax or $0.08 per share).

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

Reporting of Discontinued Operations

Effective January 1, 2015, the Registrants prospectively adopted accounting guidance that changes the criteria for determining what should be classified as a discontinued operation and the related presentation and disclosure requirements. A discontinued operation may include a component of an entity or a group of components of an entity, or a business activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results when any of the following occurs: (1) The components of an entity or group of components of an entity meets the criteria to be classified as held for sale, (2) The component of an entity or group of components of an entity is disposed of by sale, or (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

As a result of the spinoff on June 1, 2015, PPL Energy Supply has been reported as a discontinued operation under the new discontinued operations guidance. See Note 8 for additional information.

**3. Segment and Related Information**

*(PPL)*

See Note 2 in PPL's 2014 Form 10-K for a discussion of reportable segments and related information.

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which substantially represented PPL's Supply segment. As a result of this transaction, PPL no longer has a Supply segment. See Note 8 for additional information.

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

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Income Statement Data** | | | | |
| Revenues from external customers | | | | |
| U.K. Regulated | $552 | $644 | $1,836 | $1,964 |
| Kentucky Regulated | 801 | 753 | 2,414 | 2,409 |
| Pennsylvania Regulated | 519 | 477 | 1,625 | 1,516 |
| Corporate and Other | 6 | 5 | 14 | 17 |
| Total | $1,878 | $1,879 | $5,889 | $5,906 |
| | | | | |
| Net Income | | | | |
| U.K. Regulated (a) | $249 | $295 | $814 | $688 |
| Kentucky Regulated | 111 | 82 | 267 | 247 |
| Pennsylvania Regulated | 55 | 57 | 191 | 194 |
| Corporate and Other (b) | (19) | (24) | (74) | (100) |
| Discontinued Operations (c) | (3) | 87 | (915) | 13 |
| Total | $393 | $497 | $283 | $1,042 |

34

Table of Contents

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Balance Sheet Data** | | |
| Assets | | |
| U.K. Regulated | $ 16,382 | $ 16,005 |
| Kentucky Regulated | 14,043 | 13,062 |
| Pennsylvania Regulated | 8,305 | 7,785 |
| Corporate and Other (d) | 516 | 1,095 |
| Discontinued Operations (c) | | 10,917 |
| Total assets | $ 39,246 | $ 48,864 |

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

(b) 2015 includes transition costs related to the formation of the Talen Energy organization and to reconfigure the remaining PPL Services functions. See Note 8 for additional information.

(c) See Note 8 for additional information.

(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 or the If-Converted Method, as applicable. 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 September 30 used in the EPS calculation are:

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Income (Numerator)** | | | | |
| Income from continuing operations after income taxes | $396 | $410 | $1,198 | $1,029 |
| Less amounts allocated to participating securities | 2 | 2 | 5 | 5 |

| | | | | |
|---|---|---|---|---|
| Income from continuing operations after income taxes available to PPL common shareowners - Basic | 394 | 408 | 1,193 | 1,024 |
| Plus interest charges (net of tax) related to Equity Units (a) | | | | 9 |
| Income from continuing operations after income taxes available to PPL common shareowners - Diluted | $394 | $408 | $1,193 | $1,033 |
| | | | | |
| Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted | $(3) | $87 | $(915) | $13 |
| | | | | |
| Net income | $393 | $497 | $283 | $1,042 |
| Less amounts allocated to participating securities | 2 | 2 | 1 | 5 |
| Net income available to PPL common shareowners - Basic | 391 | 495 | 282 | 1,037 |
| Plus interest charges (net of tax) related to Equity Units (a) | | | | 9 |
| Net income available to PPL common shareowners - Diluted | $391 | $495 | $282 | $1,046 |
| | | | | |
| **Shares of Common Stock (Denominator)** | | | | |
| Weighted-average shares - Basic EPS | 670,763 | 664,432 | 668,731 | 649,561 |
| Add incremental non-participating securities: | | | | |
| Share-based payment awards | 2,939 | 1,970 | 2,523 | 1,860 |
| Equity Units (a) | | | | 14,080 |
| Weighted-average shares - Diluted EPS | 673,702 | 666,402 | 671,254 | 665,501 |
| | | | | |
| **Basic EPS** | | | | |
| Available to PPL common shareowners: | | | | |
| Income from continuing operations after income taxes | $0.59 | $0.61 | $1.78 | $1.58 |
| Income (loss) from discontinued operations (net of income taxes) | (0.01) | 0.13 | (1.36) | 0.02 |
| Net Income Available to PPL common shareowners | $0.58 | $0.74 | $0.42 | $1.60 |
| | | | | |
| **Diluted EPS** | | | | |
| Available to PPL common shareowners: | | | | |
| Income from continuing operations after income taxes | $0.59 | $0.61 | $1.78 | $1.55 |
| Income (loss) from discontinued operations (net of income taxes) | (0.01) | 0.13 | (1.36) | 0.02 |
| Net Income Available to PPL common shareowners | $0.58 | $0.74 | $0.42 | $1.57 |

35

Table of Contents

(a) In 2014, the If-Converted Method was applied to the Equity Units prior to the March 2014 settlement.

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

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Stock-based compensation plans (a) | 1,368 | 210 | 3,805 | 2,228 |
| DRIP | 475 | 425 | 1,318 | 425 |

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

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

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

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Stock options | 1,484 | 527 | 1,218 | 1,901 |
| Performance units | | | 49 | |
| Restricted stock units | | | | 41 |

**5. Income Taxes**

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

*(PPL)*

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35% | $ 189 | $ 214 | $ 571 | $ 547 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 15 | 13 | 44 | 28 |
| Valuation allowance adjustments (a) | | 3 | 8 | 49 |
| Impact of lower U.K. income tax rates | (40) | (48) | (138) | (124) |
| U.S. income tax on foreign earnings - net of foreign tax credit (b) | | 26 | (1) | 47 |
| Federal and state tax reserve adjustments (c) | (9) | | (21) | |
| Foreign income tax return adjustments | | | (4) | |
| Amortization of investment tax credit | (1) | 1 | (3) | (3) |
| Depreciation not normalized | (1) | (3) | (4) | (7) |
| Intercompany interest on U.K. financing entities | (4) | | (15) | (4) |
| Other | (5) | (5) | (5) | 1 |
| Total increase (decrease) | (45) | (13) | (139) | (13) |
| Total income taxes | $ 144 | $ 201 | $ 432 | $ 534 |

(a) As a result of the spinoff announcement, PPL recorded deferred income tax expense during the three and nine months ended September 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.

(b) During the three and nine months ended September 30, 2015, PPL recorded lower income tax expense due to a decrease in taxable dividends.

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

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

36

Table of Contents

*(PPL Electric)*

| | Three Months 2015 | Three Months 2014 | Nine Months 2015 | Nine Months 2014 |
|---|---|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 32 | $ 33 | $ 112 | $ 110 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 7 | 5 | 21 | 17 |
| Depreciation not normalized | (1) | (2) | (3) | (5) |
| Other | (3) | 1 | | (1) |
| Total increase (decrease) | 3 | 4 | 18 | 11 |
| Total income taxes | $ 35 | $ 37 | $ 130 | $ 121 |

*(LKE)*

| | Three Months 2015 | Three Months 2014 | Nine Months 2015 | Nine Months 2014 |
|---|---|---|---|---|
| Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35% | $ 68 | $ 51 | $ 172 | $ 153 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 7 | 6 | 18 | 16 |
| Amortization of investment tax credit | (1) | (1) | (2) | (3) |
| Valuation allowance adjustment (a) | | | 8 | |
| Other | (1) | (1) | (2) | (1) |
| Total increase (decrease) | 5 | 4 | 22 | 12 |
| Total income taxes | $ 73 | $ 55 | $ 194 | $ 165 |

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

*(LG&E)*

| | Three Months 2015 | Three Months 2014 | Nine Months 2015 | Nine Months 2014 |
|---|---|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 33 | $ 26 | $ 83 | $ 74 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 4 | 3 | 9 | 8 |
| Other | (1) | (2) | (1) | (4) |
| Total increase (decrease) | 3 | 1 | 8 | 4 |

| | | | | |
|---|---|---|---|---|
| Total income taxes | $ 36 | $ 27 | $ 91 | $ 78 |

*(KU)*

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 41 | $ 32 | $ 106 | $ 98 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 4 | 3 | 11 | 10 |
| Other | (1) | (1) | (2) | (2) |
| Total increase (decrease) | 3 | 2 | 9 | 8 |
| Total income taxes | $ 44 | $ 34 | $ 115 | $ 106 |

**Unrecognized Tax Benefits** *(PPL)*

Changes to unrecognized tax benefits for the periods ended September 30 are as follows.

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **PPL** | | | | |
| Beginning of period | $ 5 | $ 21 | $ 20 | $ 22 |
| Additions based on tax positions of prior years | | | | 1 |
| Reductions based on tax positions of prior years | | | | (2) |
| Settlements | | | (15) | |
| End of period | $ 5 | $ 21 | $ 5 | $ 21 |

37

Table of Contents

**Other** *(PPL)*

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

## 6. Utility Rate Regulation

*(All Registrants)*

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

| | PPL | | PPL Electric | |
|---|---|---|---|---|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Current Regulatory Assets: | | | | |
| Environmental cost recovery | $19 | $ 5 | | |
| Gas supply clause | 1 | 15 | | |
| Transmission service charge | 7 | 6 | $ 7 | $ 6 |
| Other | 10 | 11 | 3 | 6 |
| Total current regulatory assets (a) | $37 | $ 37 | $ 10 | $ 12 |
| Noncurrent Regulatory Assets: | | | | |
| Defined benefit plans (b) | $734 | $ 720 | $ 411 | $ 372 |
| Taxes recoverable through future rates | 323 | 316 | 323 | 316 |
| Storm costs | 101 | 124 | 34 | 46 |
| Unamortized loss on debt | 70 | 77 | 44 | 49 |
| Interest rate swaps (c) | 146 | 122 | | |
| Accumulated cost of removal of utility plant | 130 | 114 | 130 | 114 |
| AROs | 109 | 79 | | |
| Other | 14 | 10 | | |
| Total noncurrent regulatory assets | $1,627 | $ 1,562 | $ 942 | $ 897 |
| Current Regulatory Liabilities: | | | | |
| Generation supply charge | $41 | $ 28 | $ 41 | $ 28 |
| Demand side management | 12 | 2 | | |

| | | | | |
|---|---|---|---|---|
| Gas supply clause | 9 | 6 | | |
| Transmission formula rate | 61 | 42 | 61 | 42 |
| Storm damage expense | 13 | 3 | 13 | 3 |
| Other | 15 | 10 | 5 | 3 |
| Total current regulatory liabilities | $ 151 | $ 91 | $ 120 | $ 76 |
| | | | | |
| Noncurrent Regulatory Liabilities: | | | | |
| Accumulated cost of removal of utility plant | $ 695 | $ 693 | | |
| Coal contracts (d) | 28 | 59 | | |
| Power purchase agreement - OVEC (d) | 86 | 92 | | |
| Net deferred tax assets | 23 | 26 | | |
| Act 129 compliance rider | 25 | 18 | $ 25 | $ 18 |
| Defined benefit plans | 22 | 16 | | |
| Interest rate swaps | 82 | 84 | | |
| Other | 1 | 4 | | |
| Total noncurrent regulatory liabilities | $ 962 | $ 992 | $ 25 | $ 18 |

Table of Contents

| | LKE | | LG&E | | KU | |
|---|---|---|---|---|---|---|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Current Regulatory Assets: | | | | | | |
| Environmental cost recovery | $ 19 | $ 5 | $ 10 | $ 4 | $ 9 | $ 1 |
| Gas supply clause | 1 | 15 | 1 | 15 | | |
| Fuel adjustment clause | | 4 | | 2 | | 2 |
| Other | 7 | 1 | | | 7 | 1 |
| Total current regulatory assets | $ 27 | $ 25 | $ 11 | $ 21 | $ 16 | $ 4 |
| Noncurrent Regulatory Assets: | | | | | | |
| Defined benefit plans (b) | $ 323 | $ 348 | $ 200 | $ 215 | $ 123 | $ 133 |
| Storm costs | 67 | 78 | 37 | 43 | 30 | 35 |
| Unamortized loss on debt | 26 | 28 | 17 | 18 | 9 | 10 |
| Interest rate swaps (c) | 146 | 122 | 102 | 89 | 44 | 33 |
| AROs | 109 | 79 | 38 | 28 | 71 | 51 |
| Plant retirement costs (e) | 6 | | | | 6 | |
| Other | 8 | 10 | 2 | 4 | 6 | 6 |
| Total noncurrent regulatory assets | $ 685 | $ 665 | $ 396 | $ 397 | $ 289 | $ 268 |
| Current Regulatory Liabilities: | | | | | | |
| Demand side management | $ 12 | $ 2 | $ 6 | $ 1 | $ 6 | $ 1 |
| Gas supply clause | 9 | 6 | 9 | 6 | | |
| Fuel adjustment | 8 | | | | 8 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| clause | | | | | | | | |
| Gas line tracker | | | 3 | | | 3 | | |
| Other | 2 | | 4 | | | | 2 | 4 |
| Total current regulatory liabilities | $ 31 | $ | 15 | $ 15 | $ | 10 | $ 16 | $ 5 |
| | | | | | | | | |
| Noncurrent Regulatory Liabilities: | | | | | | | | |
| Accumulated cost of removal of utility plant | $ 695 | $ | 693 | $ 304 | $ | 302 | $ 391 | $ 391 |
| Coal contracts (d) | 28 | | 59 | 12 | | 25 | 16 | 34 |
| Power purchase agreement - OVEC (d) | 86 | | 92 | 59 | | 63 | 27 | 29 |
| Net deferred tax assets | 23 | | 26 | 23 | | 24 | | 2 |
| Defined benefit plans | 22 | | 16 | | | | 22 | 16 |
| Interest rate swaps | 82 | | 84 | 41 | | 42 | 41 | 42 |
| Other | 1 | | 4 | | | 2 | 1 | 2 |
| Total noncurrent regulatory liabilities | $ 937 | $ | 974 | $ 439 | $ | 458 | $ 498 | $ 516 |

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

(b) Included in 2015 is $4 million for PPL and LKE, $3 million for LG&E and $1 million for KU related to the deferred recovery of the difference between the pension cost calculated in accordance with LG&E and KU's pension accounting policy and pension cost using a 15 year amortization period for actuarial gains and losses as provided in the June 30, 2015 rate case settlement. See Note 9 and "Kentucky Activities - Rate Case Proceedings" below for additional information.

(c) Amounts include net settlements related to forward-starting interest rate swaps that were terminated in September 2015 and are included in "Cash Flows from Operating Activities" on the Statements of Cash Flows. See Note 14 for additional information.

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

(e) The June 30, 2015 rate case settlement provided for deferred recovery of costs associated with Green River's coal-fired generating unit retirements. These costs include inventory write-downs and separation benefits and will be amortized over three years.

**Regulatory Matters**

<u>U.K. Activities</u> *(PPL)*

*RIIO-ED1*

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs. See "Item 1. Business - Segment Information - U. K. Regulated Segment" of PPL's 2014 Form 10-K for additional information on RIIO-ED1.

*Ofgem Review of Line Loss Calculation*

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its liability by $65 million for over-recovery of line losses with a reduction to "Operating Revenues" on the Statement of Income. WPD began refunding the liability to customers on April 1, 2015 and will continue through March 31, 2019. The liability at September 30, 2015 was $75 million.

Table of Contents

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

*Rate Case Proceedings*

On June 30, 2015, the KPSC approved a rate case settlement agreement providing for increases in the annual revenue requirements associated with KU base electricity rates of $125 million and LG&E base gas rates of $7 million. The annual revenue requirement associated with base electricity rates at LG&E was not changed. Although the settlement did not establish a specific return on equity with respect to the base rates, an authorized 10% return on equity will be utilized in the ECR and GLT mechanisms. The settlement agreement provides for deferred recovery of costs associated with Green River Units 3 and 4 through their retirement. The new regulatory asset will be amortized over three years. The settlement also provides regulatory asset treatment for the difference between pension expense calculated in accordance with LG&E and KU's pension accounting policy and pension expense using a 15 year amortization period for actuarial gains and losses. The new rates and all elements of the settlement became effective July 1, 2015.

*KPSC Landfill Proceedings*

On May 22, 2015, LG&E and KU filed an application with the KPSC for a declaratory order that the existing CPCN and ECR approvals regarding the initial phases of construction and rate recovery of the landfill for management of CCRs at the Trimble County Station remain in effect. The current design of the proposed landfill provides for construction in substantially the same location as originally proposed with approximately the same storage capacity and expected useful life. On May 20, 2015, the owner of an underground limestone mine filed a complaint with the KPSC requesting it to revoke the CPCN for the Trimble County landfill and limit recovery of costs for the Ghent Station landfill on the grounds that, as a result of cost increases, the proposed landfill no longer constitutes the least cost alternative for CCR management. The KPSC has initiated its own investigation, consolidated the proceedings, and ordered an accelerated procedural schedule. The KPSC conducted a hearing on the matter in September 2015 and LG&E and KU are awaiting a ruling. Although the companies continue to believe that the landfills at the Trimble County and Ghent stations are the least cost options and the CPCN and prior KPSC determinations provide the necessary regulatory authority to proceed with construction of the landfill and obtain cost recovery, LG&E and KU are currently unable to predict the outcome or impact of the pending proceedings.

Pennsylvania Activities *(PPL and PPL Electric)*

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a Distribution System Improvement Charge (DSIC). Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets.

*Rate Case Proceeding*

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The application was based on a fully projected future test year of January 1, 2016 through December 31, 2016. On September 3, 2015, PPL Electric filed with the PUC Administrative Law Judge a petition for approval of a settlement agreement under which PPL Electric would be permitted to increase its annual distribution rates by $124 million, effective January 1, 2016. On October 5, 2015, the Administrative Law Judge issued a recommended decision approving the settlement agreement. The PUC is expected to issue its final order in December 2015. PPL Electric cannot predict the outcome of this proceeding.

*Distribution System Improvement Charge (DSIC)*

On March 31, 2015, PPL Electric filed a petition requesting a waiver of the DSIC cap of 5% of billed revenues and approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered after January 1, 2016. PPL Electric filed the petition concurrently with its 2015 rate case and the Administrative Law Judge granted PPL Electric's request to consolidate these two proceedings. Under the terms of the settlement agreement discussed above, PPL Electric agreed to withdraw the petition without prejudice to re-file it at a later date.

Table of Contents

*Storm Damage Expense Rider (SDER)*

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed SDER. The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recoup any differences from customers. In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. In April 2014, the PUC issued a final order approving the SDER with a January 1, 2015 effective date and initially including actual storm costs compared to collections for December 2013 through November 2014. As a result, PPL Electric reduced its regulatory liability by $12 million in March 2014. Also, as part of the April 2014 order, PPL Electric was authorized to recover Hurricane Sandy storm damage costs through the SDER of $29 million over a three-year period beginning January 1, 2015.

On June 20, 2014, the Office of Consumer Advocate (OCA) filed a petition with the Commonwealth Court of Pennsylvania requesting that the Court reverse and remand the April 2014 order permitting PPL Electric to establish the SDER. This matter remains pending before the Commonwealth Court. On January 15, 2015, the PUC issued a final order closing an investigation related to a separate OCA complaint concerning PPL Electric's October 2014 preliminary SDER calculation and modified the effective date of the SDER to February 1, 2015.

*Smart Meter Rider (SMR)*

Act 129 requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the requirements of Act 129. PPL Electric recovered the cost of its pilot programs and evaluations through a cost recovery mechanism, the Smart Meter Rider. In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. In June 2014, PPL Electric filed its final Smart Meter Plan with the PUC. In that plan, PPL Electric proposes by the end of 2019 to replace all of its current meters with new meters that meet the Act 129 requirements. The total cost of the project is estimated to be approximately $450 million, of which approximately $328 million is expected to be capital. PPL Electric proposes to recover these costs through the SMR which the PUC previously approved for recovery of such costs. On April 30, 2015, the Administrative Law Judge assigned by the PUC to review PPL Electric's Smart Meter Plan issued a recommended decision approving the plan with minor modifications. On September 3, 2015, the PUC entered a final order approving the Smart Meter Plan with minor modifications.

Federal Matters *(PPL, LKE and KU)*

*FERC Wholesale Formula Rates*

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In addition, a tenth municipality has become a transmission-only customer as of June 2015. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including approval of the formula rate with a true-up provision and authorizing a return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. In August 2015, KU filed a partial settlement agreement with the nine terminating municipalities, which, if approved by FERC, would resolve all but one open matter with one municipality, including providing for certain refunds, approving the formula rate with a true-up provision, and authorizing a 10.25% return on equity. A single remaining unresolved issue with one terminating municipality

Table of Contents

is in FERC litigation proceedings. KU cannot predict the ultimate outcome of these FERC proceedings regarding its wholesale power agreements with the municipalities, but does not currently anticipate significant remaining refunds beyond amounts already recorded.

## 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:

| | **September 30, 2015** | | | | | **December 31, 2014** | |
|---|---|---|---|---|---|---|---|
| | **Expiration Date** | **Capacity** | **Borrowed** | **Letters of Credit and Commercial Paper Issued** | **Unused Capacity** | **Borrowed** | **Letters of Credit and Commercial Paper Issued** |
| **PPL U.K.** | | | | | | | |
| WPD plc | | | | | | | |
| Syndicated Credit Facility | Dec. 2016 | £ 210 | £ 127 | | £ 83 | £ 103 | |
| WPD (South West) | | | | | | | |
| Syndicated Credit Facility | July 2020 | 245 | | | 245 | | |
| WPD (East Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2020 | 300 | 139 | | 161 | 64 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| WPD (West Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2020 | 300 | | | 300 | | |
| Uncommitted Credit Facilities | | 65 | | £ 4 | 61 | | £ 5 |
| Total U.K. Credit Facilities (a) | | £ 1,120 | £ 266 | £ 4 | £ 850 | £ 167 | £ 5 |
| **U.S.** | | | | | | | |
| PPL Capital Funding | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | | $ 300 | | |
| Syndicated Credit Facility | Nov. 2018 | 300 | | | 300 | | |
| Bilateral Credit Facility | Mar. 2016 | 150 | | $ 20 | 130 | | $ 21 |
| Total PPL Capital Funding Credit Facilities | | $ 750 | | $ 20 | $ 730 | | $ 21 |
| **PPL Electric** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | $ 69 | $ 231 | | $ 1 |
| **LKE** | | | | | | | |
| Syndicated Credit Facility (b) | Oct. 2018 | $ 75 | $ 75 | | $ | $ 75 | |
| **LG&E** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 500 | | | $ 500 | | $ 264 |
| **KU** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 400 | | | $ 400 | | $ 236 |
| Letter of Credit | Oct. 2017 | 198 | | $ 198 | | | 198 |

| | | | | |
|---|---|---|---|---|
| Facility | | | | |
| Total KU Credit Facilities | $ 598 | $ 198 | $ 400 | $ 434 |

(a) WPD plc's amounts borrowed at September 30, 2015 and December 31, 2014 were USD-denominated borrowings of $200 million and $161 million, which bore interest at 1.80% and 1.86%. WPD (East Midlands) amounts borrowed at September 30, 2015 and December 31, 2014 were GBP-denominated borrowings which equated to $214 million and $100 million, which bore interest at 0.91% and 1.00%. At September 30, 2015, the unused capacity under the U.K. credit facilities was $1.3 billion.

(b) LKE's interest rates on outstanding borrowings at September 30, 2015 and December 31, 2014 were 1.45% and 1.67%.

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

42

Table of Contents
supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

| | **September 30, 2015** | | | | **December 31, 2014** | |
|---|---|---|---|---|---|---|
| | **Weighted - Average Interest Rate** | **Capacity** | **Commercial Paper Issuances** | **Unused Capacity** | **Weighted - Average Interest Rate** | **Commercial Paper Issuances** |
| PPL Electric | 0.41% | $ 300 | $ 68 | $ 232 | | |
| LG&E | | 350 | | 350 | 0.42% | $ 264 |
| KU | | 350 | | 350 | 0.49% | 236 |
| Total | | $ 1,000 | $ 68 | $ 932 | | $ 500 |

In October 2015, PPL Capital Funding established a commercial paper program for up to $600 million to provide an additional financing source to fund its short-term liquidity needs from time to time. Commercial paper issuances will be supported by PPL Capital Funding's Syndicated Credit Facilities. PPL guarantees PPL Capital Funding's payment obligations on the commercial paper notes.

*(LKE)*

See Note 11 for discussion of intercompany borrowings.

**Long-term Debt**

*(PPL, LKE and LG&E)*

In September 2015, LG&E issued $300 million of 3.30% First Mortgage Bonds due 2025 and $250 million of 4.375% First Mortgage Bonds due 2045. LG&E received proceeds of $298 million and $248 million, net of discounts and underwriting fees, which were used to repay short-term debt and additionally will be used for the repayment of First Mortgage Bonds maturing in November 2015, and for general corporate purposes.

*(PPL, LKE and KU)*

In September 2015, KU issued $250 million of 3.30% First Mortgage Bonds due 2025 and $250 million of 4.375% First Mortgage Bonds due 2045. KU received proceeds of $248 million for each issuance, net of discounts and underwriting fees, which were used to repay short-term debt and additionally will be used for the repayment of First Mortgage Bonds maturing in November 2015, and for general corporate purposes.

*(PPL and PPL Electric)*

In October 2015, PPL Electric issued $350 million of 4.150% First Mortgage Bonds due 2045. PPL Electric received proceeds of $345 million, net of a discount and underwriting fees, which will be used to repay short-term debt and for general corporate purposes.

*(PPL)*

**ATM Program**

In February 2015, PPL 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 September 30, 2015, PPL issued the following:

| | **Three Months** | **Nine Months** |
|---|---|---|
| Number of shares | 435,800 | 857,500 |
| Average share price | $32.95 | $33.33 |
| Net proceeds | 14 | 28 |

**Distributions**

In August 2015, PPL declared its increased quarterly common stock dividend, payable October 1, 2015, at 37.75 cents per share (equivalent to $1.51 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. See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

**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 2014 Form 10-K for additional information.

*(PPL)*

**Discontinued Operations**

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. The transaction was subject to customary closing conditions, including receipt of regulatory approvals from the NRC, FERC, DOJ and PUC, all of which were received by mid-April 2015. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, 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, control of, or affiliation with Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

*Loss on Spinoff*

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

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

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

Table of Contents

The following table summarizes PPL's fair value analysis:

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

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

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

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

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

*Costs of Spinoff*

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges for employee separation benefits were recorded. See Note 8 in the 2014 Form 10-K for additional information. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to be completed by the end of 2015. At September 30, 2015 and December 31, 2014, the recorded liabilities related to the separation benefits were $11 million and $21 million, which are included in "Other current liabilities" on the Balance Sheets.

Additional employee-related costs incurred primarily include accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized $24 million of these costs at the spinoff closing date, which are reflected in discontinued operations.

As the vesting for all PPL Energy Supply employees was accelerated and all remaining unrecognized compensation expense accelerated concurrently with the spinoff, PPL does not expect to recognize significant future compensation costs for equity awards held by former PPL Energy Supply employees. PPL's future stock-based compensation expense will not be significantly impacted by equity award adjustments that occurred as a result of the spinoff. Stock-based compensation expense recognized in future periods will correspond to the unrecognized compensation expense as of the date of the spinoff, which reflects the unamortized balance of the original grant date fair value of the equity awards held by PPL employees.

PPL recorded $44 million of third-party costs related to this transaction during the nine months ended September 30, 2015. Of these costs, $31 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $13 million of consulting and other costs were incurred during the nine months ended September 30, 2015, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are primarily recorded in "Other operation and maintenance" on the Statement of Income. No significant additional third-party costs are expected to be incurred. PPL recorded $5 million and $21 million of third-party costs related to this transaction during the three and nine months ended September 30, 2014.

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

As a result of the spinoff announcement in June 2014, PPL recorded $3 million and $49 million of deferred income tax expense during the three and nine months ended September 30, 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

*Continuing Involvement*

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 from the spinoff date. The TSA sets forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL will provide Talen Energy certain information technology, financial and accounting, human resource and other specified services. For the three and nine months ended September 30, 2015, the amounts PPL billed Talen Energy for these services were $11 million and $14 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 transaction. PPL Electric's supply contracts with Talen Energy Marketing extend through December 2015. The energy purchases 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.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were not significant and are no longer considered affiliate transactions.

*Summarized Results of Discontinued Operations*

The operations of the Supply segment 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 Statements of Income for the periods ended September 30:

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Operating revenues | | $1,623 | $1,427 | $1,741 |
| Operating expenses | | 1,429 | 1,328 | 1,593 |
| Other Income (Expense) - net | | 8 | (22) | 6 |
| Interest Expense (a) | | 47 | 150 | 145 |
| Income (loss) before income taxes | | 155 | (73) | 9 |
| Income tax expense (benefit) | $3 | 68 | (37) | (4) |
| Loss on spinoff | | | (879) | |
| Income (Loss) from Discontinued Operations (net of income taxes) | $(3) | $87 | $(915) | $13 |

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

*Summarized Assets and Liabilities of Discontinued Operations*

The assets and liabilities of PPL's Supply segment for all periods prior to the spinoff are included in "Current assets of discontinued operations", "Noncurrent assets of discontinued operations", "Current liabilities of discontinued operations" and "Noncurrent liabilities of discontinued operations" on PPL's Balance Sheet. Net assets, after recognition of the loss on

46

Table of Contents

spinoff, of $3.2 billion were distributed to PPL shareowners on June 1, 2015, as a result of the completion of the spinoff of PPL Energy Supply. The following major classes of assets and liabilities were distributed and removed from PPL's Balance Sheet on June 1, 2015. Additionally, the following major classes of assets and liabilities were reclassified to discontinued operations as of December 31, 2014:

| | **Distribution on June 1, 2015** | **Discontinued Operations at December 31, 2014** |
|---|---|---|
| Cash and cash equivalents (a) | $ 371 | $ 352 |
| Restricted cash and cash equivalents | 156 | 176 |
| Accounts receivable and unbilled revenues | 325 | 504 |
| Fuels, materials and supplies | 415 | 455 |
| Price risk management assets | 784 | 1,079 |
| Other current assets | 65 | 34 |
| Total Current Assets | 2,116 | 2,600 |
| | | |
| Investments | 999 | 980 |
| PP&E, net | 6,384 | 6,428 |
| Goodwill | 338 | 338 |
| Other intangibles | 260 | 257 |
| Price risk management assets | 244 | 239 |
| Other noncurrent assets | 78 | 75 |
| Total Noncurrent Assets | 8,303 | 8,317 |
| | | |
| Total assets | $ 10,419 | $ 10,917 |
| | | |
| Short-term debt and long-term debt due within one year | $ 885 | $ 1,165 |
| Accounts payable | 252 | 361 |
| Price risk management liabilities | 763 | 1,024 |
| Other current liabilities | 229 | 225 |
| Total Current Liabilities | 2,129 | 2,775 |
| | | |
| Long-term debt (excluding current portion) | 1,932 | 1,683 |
| Deferred income taxes | 1,259 | 1,223 |
| Price risk management liabilities | 206 | 193 |
| Accrued pension obligations | 244 | 299 |
| Asset retirement obligations | 443 | 415 |
| Other deferred credits and noncurrent liabilities | 103 | 150 |
| Total Noncurrent Liabilities | 4,187 | 3,963 |
| | | |
| Total liabilities | $ 6,316 | $ 6,738 |
| Adjustment for loss on spinoff | 879 | |
| Net assets distributed | $ 3,224 | |

(a) The distribution of PPL Energy Supply's cash and cash equivalents at June 1, 2015 is included in "Net cash provided by (used in) financing activities - discontinued operations" on the Statement of Cash Flows for the nine months ended September 30, 2015.

Montana Hydro Sale

In November 2014, PPL Montana completed the sale to NorthWestern of 633 MW of hydroelectric generating facilities located in Montana for approximately $900 million in cash. The proceeds from the sale remained with PPL and did not transfer to Talen Energy as a result of the spinoff of PPL Energy Supply. The sale included 11 hydroelectric power facilities and related assets, included in the Supply segment.

As the Montana hydroelectric power facilities were previously reported as a component of PPL Energy Supply and the Supply Segment, the components of discontinued operations for these facilities contained in the Statements of Income are included in the disclosure above.

Table of Contents

**Development**

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

The Cane Run Unit 7 NGCC was put into commercial operation on June 19, 2015. As a result and to meet more stringent EPA regulations, LG&E retired one coal-fired generating unit at the Cane Run plant in March 2015 and retired the remaining two coal-fired generating units at the plant in June 2015. Additionally, KU retired the remaining two coal-fired generating units at the Green River plant on September 30, 2015. LG&E and KU incurred costs of $11 million and $6 million, respectively, directly related to these retirements including inventory write-downs and separation benefits. However, there were no gains or losses on the retirement of these units. See Note 6 for more information related to the regulatory recovery of the costs associated with the retirement of the Green River units.

In October 2013, LG&E and KU announced plans for a 10 MW solar generation facility to be operational in 2016 at a cost of approximately $36 million. In December 2014, a final order was issued by the KPSC approving the request to construct the solar generating facility at E.W. Brown.

**9. Defined Benefits**

*(PPL)*

PPL performed a remeasurement of the assets and the obligations for the PPL Retirement Plan and PPL Postretirement Benefit plans as of May 31, 2015 to allow for separation of those plans for PPL and Talen Energy as required in accordance with the spinoff transaction agreements. The net pension obligations for all active PPL Energy Supply employees and for individuals who terminated employment from PPL Energy Supply on or after July 1, 2000 were distributed and removed from PPL's Balance Sheet. The net other postretirement benefit obligations for all active PPL Energy Supply employees were distributed and removed from PPL's Balance Sheet. In addition, the net nonqualified pension plan obligations for all PPL Energy Supply active and inactive employees were retained by PPL. As a result, PPL distributed and removed from its Balance Sheet $244 million of net accrued pension obligations and $7 million of other postretirement benefit obligations. See Note 8 for additional information on the spinoff of PPL Energy Supply.

*(PPL, LKE and LG&E)*

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Additionally, as a result of the LG&E and KU rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. See Note 6 for further information. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries and LG&E for the periods ended September 30:

| | **Pension Benefits** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Three Months** | | | | **Nine Months** | | | |
| | **U.S.** | | **U.K.** | | **U.S.** | | **U.K.** | |
| | **2015** | **2014 (c)** | **2015** | **2014** | **2015 (b)** | **2014 (c)** | **2015** | **2014** |
| **PPL** | | | | | | | | |
| Service cost | $20 | $24 | $21 | $18 | $76 | $73 | $60 | $54 |
| Interest cost | 42 | 56 | 80 | 90 | 152 | 168 | 236 | 268 |
| Expected return on plan assets | (56) | (72) | (133) | (133) | (201) | (216) | (393) | (395) |
| Amortization of: | | | | | | | | |
| Prior service cost | 1 | 5 | | | 5 | 15 | | |
| Actuarial (gain) loss | 18 | 8 | 39 | 34 | 65 | 22 | 118 | 100 |
| Net periodic defined benefit costs (credits) prior to termination benefits | 25 | 21 | 7 | 9 | 97 | 62 | 21 | 27 |
| Termination benefits (a) | | (7) | | | | 13 | | |
| Net periodic defined benefit costs (credits) | $25 | $14 | $7 | $9 | $97 | $75 | $21 | $27 |

48

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Three Months | | Nine Months | |
| | 2015 | 2014 | 2015 | 2014 |
| **LKE** | | | | |
| Service cost | $7 | $5 | $20 | $16 |
| Interest cost | 17 | 17 | 51 | 50 |
| Expected return on plan assets | (22) | (21) | (66) | (62) |
| Amortization of: | | | | |
| Prior service cost | 1 | 1 | 5 | 3 |
| Actuarial (gain) loss | 9 | 4 | 26 | 10 |
| Net periodic defined benefit costs (credits) | $12 | $6 | $36 | $17 |
| | | | | |
| **LG&E** | | | | |
| Service cost | | | $1 | $1 |
| Interest cost | $3 | $4 | 10 | 11 |
| Expected return on plan assets | (5) | (4) | (15) | (14) |
| Amortization of: | | | | |
| Prior service cost | 1 | 1 | 2 | 2 |
| Actuarial (gain) loss | 3 | 1 | 9 | 4 |
| Net periodic defined benefit costs (credits) | $2 | $2 | $7 | $4 |

(a) The three and nine months ended September 30, 2014 include termination benefits of ($2) million and $2 million for PPL Electric. The remaining ($5) million and $11 million relate to PPL Energy Supply and are reflected in discontinued operations.

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

(c) For the three and nine months ended September 30, 2014, the total net periodic defined benefit cost includes $1 million and $29 million reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply.

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months | | Nine Months | |
| | 2015 | 2014 | 2015 | 2014 |
| **PPL** | | | | |
| Service cost | $ 2 | $ 3 | $ 9 | $ 9 |
| Interest cost | 6 | 7 | 20 | 23 |
| Expected return on plan assets | (6) | (6) | (20) | (19) |

| | | | | |
|---|---|---|---|---|
| Net periodic defined benefit costs (credits) | $ 2 | $ 4 | $ 9 | $ 13 |
| **LKE** | | | | |
| Service cost | $ 1 | $ 1 | $ 4 | $ 3 |
| Interest cost | 2 | 2 | 7 | 7 |
| Expected return on plan assets | (1) | (1) | (4) | (4) |
| Amortization of: | | | | |
| Prior service cost | 1 | 1 | 2 | 2 |
| Net periodic defined benefit costs (credits) | $ 3 | $ 3 | $ 9 | $ 8 |

*(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 September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

| | **Three Months 2015** | **2014** | **Nine Months 2015** | **2014** |
|---|---|---|---|---|
| PPL Electric (a) | $ 8 | $ 3 | $24 | $ 18 |
| LG&E | 3 | 2 | 10 | 6 |
| KU | 4 | 2 | 13 | 6 |

(a) The three and nine months ended September 30, 2014 include ($2) million and $2 million of termination benefits for PPL Electric related to a one-time voluntary retirement window offered to certain bargaining unit employees.

49

**10. Commitments and Contingencies**

*(PPL)*

All commitments, contingencies and guarantees associated with PPL Energy Supply and its subsidiaries were retained by Talen Energy Supply and its subsidiaries at the spinoff date without recourse to PPL.

**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 and such issues as may appropriately be presented by the parties and determined by the court. Oral argument before the Sixth Circuit was held in August 2015, but a ruling has not yet been issued by the 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. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant 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. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E. W. Brown plant.

Table of Contents

**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.

In October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. In May 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC-proposed standard was approved by FERC in June 2014. These requirements do not impose significant costs on the Registrants. The second type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events. FERC issued a notice of proposed rulemaking on this second type of Reliability Standard on May 14, 2015. The Registrants do not presently anticipate significant costs to comply with the requirements if finalized as proposed.

**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)*

<u>Air</u>

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

Table of Contents

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 $SO_2$.

Federal environmental regulations of these criteria pollutants require states to adopt implementation plans, known as SIPs, 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 SIP 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 SIPs implementing them, 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 currently 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 and Tyrone plants, 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 on June 29, 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 Court remanded the matter to the D.C. Circuit Court. EPA's MATS rule remains in effect pending action by the D.C. Circuit Court. It is uncertain whether the D.C. Circuit Court will vacate the MATS rule, remand the rule to the EPA, or require further proceedings or actions.

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 FGDs or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, rate treatment or future capital or operating needs.

*New Source Review (NSR)*

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR

Table of Contents

requirements under the Clean Air Act. PPL, LKE, LG&E and KU received various EPA information requests in 2007 and 2009, but have received no further communications from the EPA related to those requests since providing their responses. States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate the impact, if any.

If LG&E or KU is found to have triggered the applicability of NSR regulations by increasing pollutants beyond allowable thresholds through a plant modification, the company could, among other things, be required to meet substantially more stringent permit limits. The costs to meet such limits, including installation of technology at certain units, could be significant.

*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 plant operations, including increased capital costs, if any.

*Climate Change*

*(All Registrants)*

*Authority to Regulate Carbon Dioxide Emissions*

The EPA issued rules in 2014 regulating carbon dioxide emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and, in June 2014, the U.S. Supreme Court ruled that the EPA has authority to regulate carbon dioxide emissions under the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in carbon dioxide emissions must comply with permit limits for carbon dioxide, but only if it would otherwise be subject to limits on new or modified sources due to significant increases in other pollutants.

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

As further described below, in August 2015, the EPA finalized rules imposing greenhouse gas emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan which 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.

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.

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

*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 Rule 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

Table of Contents

were calculated from 2012 data by applying EPA's broad interpretation and definition of the BSER, 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 Kentucky fails to develop an approvable implementation plan by September 2016 (with the possibility of an extension until 2018), the EPA will 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 in an effort to provide input into the state or federal implementation plan that will govern reductions in Kentucky. 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 needs. 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.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In June 2011, the U.S. Supreme Court in the case of AEP v. Connecticut ruled that federal common law claims against five utility companies for allegedly causing a public nuisance as a result of their emissions of GHGs were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in Comer v. Murphy Oil (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) upheld a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The plaintiffs in the Comer case later filed a substantially similar complaint against a larger group of companies which was subsequently dismissed by the U.S. District Court for the Southern District of Mississippi. The lower court's ruling was affirmed by the Fifth Circuit in May 2013. Additional litigation in federal and state courts over such issues is continuing. PPL, LKE, LG&E and KU cannot predict the outcome of these matters.

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. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable through citizen suits. LG&E's and KU's plants using surface impoundments for management and disposal of CCRs will be most impacted by this rule. The rule's requirements for covered CCR impoundments and landfills include commencement or completion of closure activities generally between three and ten years from certain triggering events. PPL, LKE, LG&E and KU also anticipate incurring capital or operation and maintenance costs prior to that time to address other provisions of the rule, such as groundwater monitoring and disposal facility modifications or closings, or to implement various compliance strategies.

In connection with the final CCR rule, LG&E and KU recorded increases to existing AROs during the three and nine months ending September 30, 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.

Table of Contents

*Trimble County Landfill*

In May 2011, LG&E submitted an application for a special waste landfill permit to handle CCRs generated at the Trimble County plant. In May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act. In January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. LG&E has also applied for other necessary regulatory approvals including a dredge and fill permit from the U.S. Army Corps of Engineers. LG&E and KU have responded to comments on the permit application submitted by EPA and other parties. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until all permits are issued and any resulting legal challenges are concluded. See Note 6 for additional information on Kentucky Public Service Commission proceedings relating to the Trimble County Landfill.

*Clean Water Act*

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for many of LG&E's and KU's 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 is not currently known how Kentucky intends to integrate the ELGs into its ongoing permit renewal process. LG&E and KU continue to assess the requirements of this complex rule to determine available compliance strategies. 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.

*(PPL, LKE and LG&E)*

*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. Mill Creek Unit 1 is the only unit expected to be impacted. PPL, LKE, and LG&E 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 currently in effect anywhere in the United

Table of Contents

States. The ultimate outcome of the court's review of the rule remains uncertain. The Registrants had not expected the rule to have a significant impact on their operations, but were unable to predict the impact of the rule in light of the ongoing litigation, particularly in Pennsylvania where the rule could have resulted in significant project delays and added costs, as permits and other regulatory requirements could have been imposed for many activities not otherwise covered by permitting requirements (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands).

*Other Issues*

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently 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 March 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.

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

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 which 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. LG&E and the KEEC have moved for discretionary review by the Kentucky Supreme Court. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact, if any, on plant operations or future capital or operating needs.

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 currently 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, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be significant. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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 currently under review, or at sites not currently identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU.

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

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

**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 September 30, 2015. "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 September 30, 2015 and December 31, 2014, was $24 million and $26 million for PPL and $19 million for LKE for both periods. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

| | Exposure at September 30, 2015 | | Expiration Date |
|---|---|---|---|
| **PPL** | | | |
| Indemnifications related to the WPD Midlands acquisition | | (a) | |
| WPD indemnifications for entities in liquidation and sales of assets | $ 11 | (b) | 2018 |
| WPD guarantee of pension and other obligations of unconsolidated entities | 116 | (c) | |
| **PPL Electric** | | | |
| Guarantee of inventory value | 36 | (d) | 2018 |
| **LKE** | | | |
| Indemnification of lease termination and other divestitures | 301 | (e) | 2021 - 2023 |