LG&E KU

PPL companies

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PUBLIC SERVICE COMMISSION

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

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

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

April 17, 2018

Re: Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities
Case No. 2010-00204

Dear Ms. Pinson:

Pursuant to the Commission's Order dated September 30, 2010 in the aforementioned case, Louisville Gas and Electric Company and Kentucky Utilities Company submit one (1) copy of PPL Corporation's 2017 Annual Report pursuant to Appendix C, Commitment No. 21.

Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the extra copy. Should you have any questions regarding this information filed herewith, please contact me at your convenience.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

Delivering today for a brighter tomorrow

PPL CORPORATION
ANNUAL REPORT 2017

ppl

We will deliver best-in-sector operational performance, invest responsibly in a sustainable energy future, maintain a strong financial foundation, and engage and develop our people.

DEAR SHAREOWNERS,

Thank you for investing in PPL and supporting the work we do to power people's lives throughout the communities we serve.

At PPL, we are a company of more than 12,000 employees, each of us different in so many ways. Yet, we are united by a common purpose: to deliver value for our shareowners and customers, to secure a brighter energy future for generations to come, and to make a positive impact in our communities.

This sense of purpose guides us each and every day and focuses our strategy for long-term growth and success. That strategy is clear. We will deliver best-in-sector operational performance, invest responsibly in a sustainable energy future, maintain a strong financial foundation, and engage and develop our people.

This letter highlights our achievements during 2017 in pursuit of this strategy. Those achievements included delivering power safely, reliably and affordably to more than 10 million customers in the U.S. and U.K.; providing award-winning customer service; strengthening reliability; and investing in the future. We also delivered full-year earnings at the high end of our guidance range, increased our dividend, maintained our strong balance sheet and positioned PPL for competitive earnings growth and dividends.

While PPL executed well in 2017, we were disappointed by our stock price performance. Political and regulatory uncertainty in the U.K. weighed on the price of PPL shares in the latter half of 2017 and has continued to affect the stock early this year.

We think the market has overreacted to regulatory and political developments in the U.K. We believe that the U.K. remains a premium regulatory jurisdiction in which to operate and that Western Power Distribution (WPD), consistently the top-performing distribution network operator group in the U.K., will continue to deliver strong returns. We will continue to actively engage with U.K. regulator Ofgem and key stakeholders to ensure positive outcomes for our customers and shareowners moving forward.

As this uncertainty passes, we are confident that the fundamental strength of our regulated businesses, our track record of outstanding execution, our strong organic growth and our forward-looking strategy will carry the day.

Drive best-in-sector operational performance

PPL's success begins by delivering electricity safely, reliably and affordably while providing outstanding customer service. Operational excellence in these areas drives high customer satisfaction, keeps PPL's reputation strong and should yield better long-term results for our shareowners.

In both the U.S. and the U.K., we excelled at customer service in 2017 as we worked to expand the options available to customers and better anticipate their needs.

WPD led all U.K. distribution network operator groups in overall customer satisfaction and ranked best at engaging stakeholders and addressing vulnerable customers. In the U.S., both PPL Electric Utilities Corporation (PPL Electric) and Kentucky Utilities Company (KU) received J.D. Power awards for residential customer satisfaction, achieving the highest overall marks by class and region based on customer surveys. Louisville Gas and Electric Company (LG&E) finished a close second to KU.

At the same time, we continued to strengthen reliability for our customers by making the grid smarter and more resilient. PPL Electric recorded its best year ever for reliability in 2017. LG&E and KU posted their best year in more than a decade. And WPD remained on track to achieve its 2017/2018 performance incentive targets for both reliability and customer satisfaction.

Our U.S. utilities also finished the year with their lowest OSHA-recordable injury rates in history, reflecting continued safety improvements and our company-wide commitment to safety.

Invest responsibly in a sustainable energy future

As the nation grapples with how to address aging infrastructure, PPL is moving forward, taking bold steps to modernize the grid, incorporate new technology and advance a cleaner energy future in ways that benefit customers, grow shareowner value and support jobs.

In 2017, we invested about $3.5 billion in infrastructure improvements. From 2018 through 2022, we plan to invest an additional $15 billion.

In Pennsylvania, we installed nearly 600,000 advanced meters as part of a multi-year project to replace 1.4 million. We expanded and reinforced our transmission system, completing four substations and adding or rebuilding 110 miles of transmission lines. And we continued to add smart grid devices to enhance a distribution automation system that is already among the most robust and advanced in the U.S.

In Kentucky, we completed a multi-year, 540-mile gas main replacement project in Louisville, replacing cast iron, wrought iron and bare steel natural gas pipelines with more durable plastic natural gas pipelines. We did this ahead of many of our peers and well before federal regulations required it. In addition, we made progress on about $1 billion in environmental upgrades as part of a five-year project to cap and close ash ponds at our coal-fired power plants.

Across the Atlantic, we continued to expand and reinforce our distribution networks in the U.K. With an eye toward the future, we connected nearly 2 gigawatts of distributed generation, including private solar power, to our networks. In addition, we advanced nearly two dozen research and development projects to support the increased adoption of distributed energy resources. These projects help to support the U.K.'s move toward a low-carbon future.

Finally, we performed a scenario-based climate assessment in 2017, and in early 2018 PPL established a goal to reduce carbon dioxide emissions 70 percent from 2010 levels by 2050.

Maintain a strong financial foundation

Delivering for our customers while investing in the future requires a strong financial foundation. At PPL, we understand that, and we're committed to protecting the value of our company so that we can deliver for you.

In 2017, we maintained a solid balance sheet and investment-grade credit ratings, generated strong cash flow and updated our business plans to address U.S. tax reform. In addition, we effectively managed foreign currency exposure through our disciplined risk management program.

Throughout the year, we also allocated capital as planned and recovered capital investments in a timely manner, realizing near-real-time recovery of about 80 percent of our infrastructure investment. We received approval from the Kentucky Public Service Commission for a combined $116 million increase in annual base electricity and gas rates for LG&E and KU. In addition, we continued to perform well in the U.K. against our performance incentive targets.

As a result of this disciplined investment and strong execution, we delivered at the high end of our earnings guidance in 2017, increased our dividend by 4 percent in early 2017 and then increased it 4 percent again early this year. Looking ahead, we expect at least 5 to 6 percent annual earnings per share growth from 2018 through 2020 off of our 2018 forecast midpoint of $2.30 per share.

Engage and develop our people

Across our company in 2017, we also continued to invest in the people whose dedication, experience and professionalism fuel our success.

This included recruiting and training field workers in our apprenticeship and lineman trainee programs, investing in leadership development programs, fostering greater diversity and inclusion, promoting employee wellness and providing excellent compensation and benefits. As we continued this focus in 2017, PPL was recognized by Forbes magazine as one of America's best employers.

In closing, I am proud of our many achievements, and I feel very fortunate to work for this great company.

As we look to the future, we will continue to meet the challenges of a changing world and explore new opportunities to grow your company in a sustainable way. We will remain steadfast in the pursuit of our long-term strategy for growth and success, and we will always be mindful of the role we play in providing an essential service to families, businesses and communities.

On behalf of our entire team at PPL, I thank you for your continued trust and confidence.

Sincerely,

Bill

William H. Spence
Chairman, President and Chief Executive Officer

FINANCIAL & OPERATING HIGHLIGHTS

FINANCIAL HIGHLIGHTS

For the years ended December 31

FINANCIAL	2017	2016
Operating revenues (millions)	**$7,447**	$7,517
Net income (millions)	**$1,128**	$1,902
Earnings from ongoing operations (millions) (a)	**$1,553**	$1,674
Total assets (millions) (b)	**$41,479**	$38,315
Earnings per share - Diluted	**$1.64**	$2.79
Earnings from ongoing operations per share – Diluted (a)	**$2.25**	$2.45
Dividends declared per share	**$1.58**	$1.52
Book value per share (b,c)	**$15.52**	$14.56
Market price per share (b)	**$30.95**	$34.05
Market price/book value ratio (b)	**199%**	234%
Dividend yield	**5.1%**	4.5%
Dividend payout ratio (d)	**96%**	55%
Dividend payout ratio - earnings from ongoing operations (d,e)	**70%**	62%
Price/earnings ratio (d)	**18.9**	12.2
Price/earnings ratio - earnings from ongoing operations (d,e)	**13.8**	13.9
Return on common equity	**10.9%**	19.2%
Return on common equity - earnings from ongoing operations (e)	**15.0%**	16.9%

OPERATING - DOMESTIC ELECTRICITY SALES (GWh)		
Retail delivered	**65,751**	67,474
Wholesale supplied	**2,084**	2,177

OPERATING - INTERNATIONAL ELECTRICITY SALES (GWh)		
United Kingdom	**74,317**	74,728

(a) Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to reported earnings, or net income, an indicator of operating performance determined in accordance with GAAP PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. See "Reconciliation of Net Income to Earnings from Ongoing Operations" on page 36 (millions of dollars) and page V (per share) of this report.

(b) End of period.

(c) Based on 693,398 and 679,731 shares of common stock outstanding (in thousands) at December 31, 2017 and December 31, 2016.

(d) Based on diluted earnings per share.

(e) Calculated using earnings from ongoing operations, which is a non-GAAP financial measure that includes adjustments described above in footnote (a).

PPL CORPORATION AT A GLANCE

Headquarters: Allentown, Pa.

$7.4 billion in annual revenue

Total assets of $41 billion

Market capitalization of $21 billion

Seven regulated utility companies

More than 10 million utility customers (electric and gas) in the U.S. and U.K.

About 8,000 megawatts of generation capacity

Approximately 12,500 full-time employees

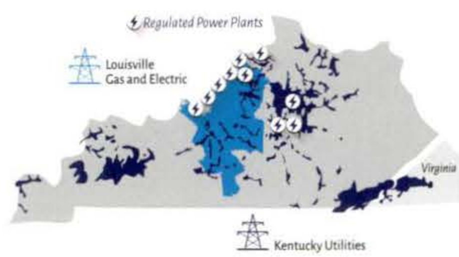
Approximately 218,000 miles of electric lines

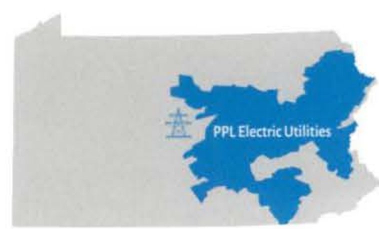
142 billion kilowatt-hours of electricity delivered

Recipient of multiple customer satisfaction honors

As of December 31, 2017

MAJOR BUSINESS SEGMENTS	KEY INFORMATION
U.K. Regulated	PPL's U.K. segment consists of the regulated electricity distribution operations of Western Power Distribution, which serves 7.9 million customers in central and southwest England and south Wales.
Kentucky Regulated	PPL's Kentucky segment consists primarily of the regulated electricity and natural gas operations of Louisville Gas and Electric Company and Kentucky Utilities Company, which serve 1.3 million customers in Kentucky, Virginia and Tennessee, and operate about 8,000 megawatts of regulated generating capacity.
Pennsylvania Regulated	PPL's Pennsylvania segment consists of the regulated electricity delivery operations of PPL Electric Utilities Corporation, which serves approximately 1.4 million customers in eastern and central Pennsylvania.





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Form 10-K for the year ended December 31, 2017, was filed by PPL Corporation with the U.S. Securities and Exchange Commission on February 22, 2018. Please visit PPL Corporation's website, www.pplweb.com/investors, for the full text.

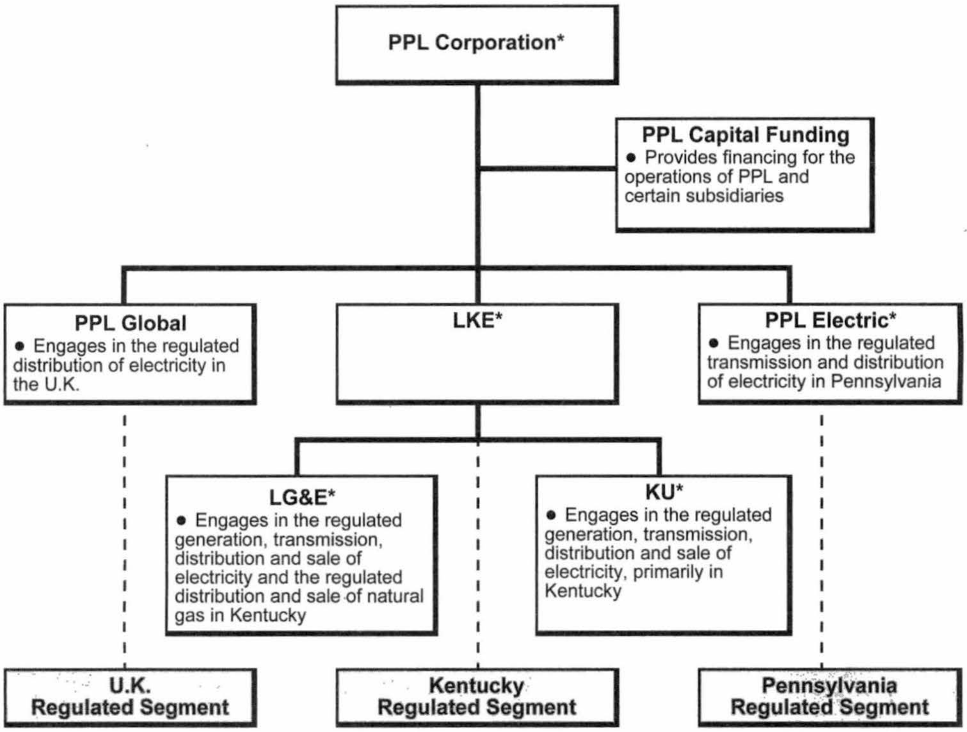
BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy. See "Spinoff of PPL Energy Supply" below for more information.

PPL's principal subsidiaries at December 31, 2017 are shown below (* denotes a Registrant).



PPL Global is not a registrant. Unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished on a Form 8-K with the SEC.

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

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

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

Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs which primarily include financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. As a result of the June 1, 2015 spinoff of PPL Energy Supply, PPL no longer has a Supply segment. The operations of the Supply segment are included in "Loss from Discontinued Operations (net of income taxes)" on the Statements of Income.

A comparison of PPL's three regulated segments is shown below.

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2017:			
Operating Revenues (in billions)	$ 2.1	$ 3.2	$ 2.2
Net Income (in millions)	$ 652	$ 286	$ 359
Electricity delivered (GWh)	74,317	31,839	35,996
At December 31, 2017:			
Regulatory Asset Base (in billions) (a)	$ 9.8	$ 9.2	$ 6.9
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.9	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information about the segments.

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

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

- ***U.K. Regulated Segment*** *(PPL)*

  Consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through indirect wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 7.9 million across 21,600 square miles in south Wales and southwest and central England.

Revenues, in millions, for the years ended December 31 are shown below.

	2017	2016	2015
Operating Revenues (a)	$ 2,091	$ 2,207	$ 2,410

(a) WPD's Operating Revenues are translated from GBP to U.S. dollars using the average GBP to U.S. dollar exchange rates in effect each month. The annual weighted average of the monthly GBP to U.S. dollar exchange rates used for the years ended December 31, 2017, 2016 and 2015 were $1.28 per GBP, $1.37 per GBP and $1.53 per GBP.

Franchise and Licenses

WPD's operations are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. Ofgem is a non-ministerial government department and an independent National Regulatory Authority that is responsible for protecting the interests of existing and future electricity and natural gas consumers. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each of the DNOs to develop, maintain and operate efficient distribution networks. WPD's operations are regulated under these licenses which set the outputs WPD needs to deliver for their customers and associated revenues WPD is allowed to earn. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

Ofgem has the formal power to propose modifications to each distribution license; however licensees can appeal such changes to the U.K.'s Competition and Markets Authority in the event of a disagreement with the regulator. Generally, any potential changes to these licenses are reviewed with stakeholders in a formal regulatory consultation process prior to a formal change proposal.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four distribution businesses are, therefore, regulated monopolies, which operate under regulatory price controls.

Customers

WPD provides regulated electricity distribution services to licensed third party energy suppliers who use WPD's networks to transfer electricity to their customers, the end-users. WPD bills energy suppliers for this service and the supplier is responsible for billing its end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether the supplier needs to collateralize its payment obligations.

WPD's costs make up approximately 16% of a U.K. end-user customer's electricity bill.

U.K. Regulation and Rates

Overview

Ofgem has adopted a price control regulatory framework with a balanced objective of enhancing and developing electricity networks for the future, controlling costs to customers and allowing DNOs, such as WPD's DNOs, to earn a fair return on their investments. This regulatory structure is focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Price controls are established based on long-term business plans developed by each DNO with substantial input from its stakeholders. To measure the outputs and performance, each DNO business plan includes incentive targets that allow for increases and/or reductions in revenues based on operational performance, which are intended to align returns with quality of service, innovation and customer satisfaction.

For comparative purposes, amounts listed below are in British pounds sterling, nominal prices and in calendar years unless otherwise noted.

Key Ratemaking Mechanisms

PPL believes the U.K. electricity utility model is a premium jurisdiction in which to do business due to its significant stakeholder engagement, incentive-based structure and high-quality ratemaking mechanisms.

Current Price Control: RIIO-ED1

WPD is currently operating under an eight-year price control period called RIIO-ED1, which commenced for electricity distribution companies on April 1, 2015. The regulatory framework is based on an updated approach for sustainable network regulation known as the "RIIO" model where Revenue = Incentives + Innovation + Outputs.

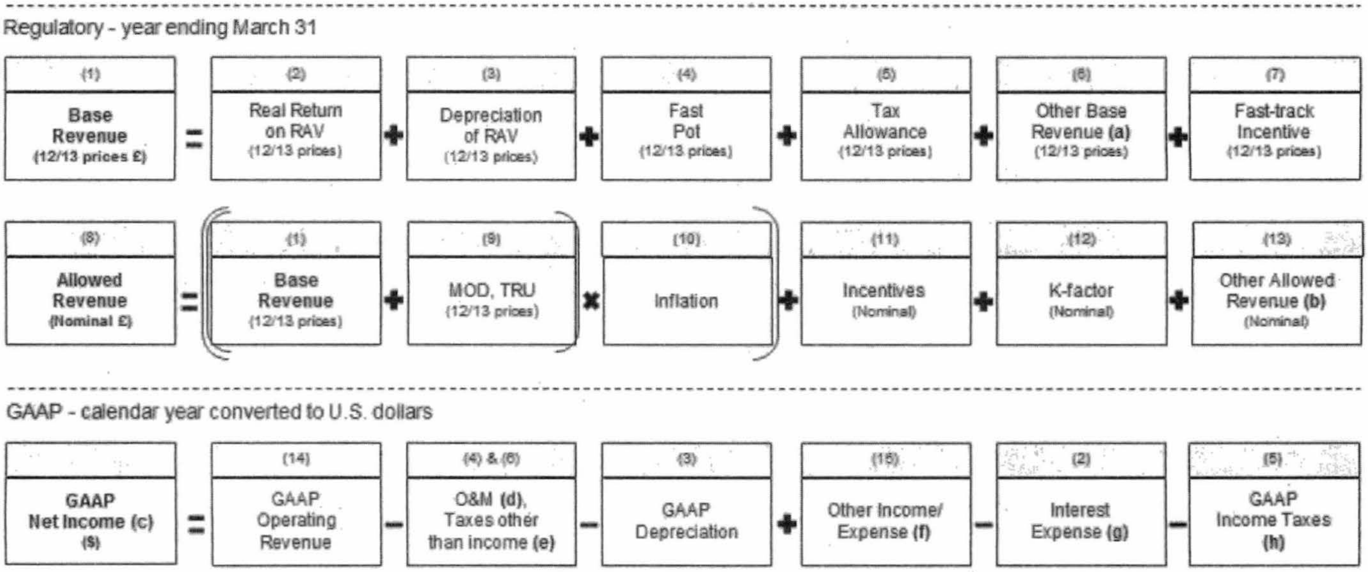
The RIIO framework allows for a MPR, which is a review halfway through the price control period to assess potential changes in outputs during the price control period. The scope of the potential MPR was originally limited to material changes to outputs that can be justified by clear changes in government policy and the introduction of new outputs that are needed to meet the needs of consumers and other network users. Ofgem is currently consulting on the scope of the potential MPR. See " Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Financial and Operational Developments - Regulatory Requirements" for additional information.

In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD's DNOs' business plans were accepted by Ofgem as "well justified" and were "fast-tracked" ahead of all of the other DNOs. WPD's DNOs were rewarded for being fast-tracked with preferential financial incentives, a higher return on equity and higher cost savings retention under their business plans as discussed further below.

WPD's combined RIIO-ED1 business plans include funding for total expenditures of approximately £12.8 billion (nominal) over the eight-year period, broken down as follows:

- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem fees and National Grid transmissions charges); and
- Corporate income taxes recovery - £0.5 billion.

The chart below illustrates the building blocks of allowed revenue and GAAP net income for the U.K. Regulated Segment. The revenue components are shown in either 2012/13 prices or nominal prices, consistent with the formulas Ofgem established for RIIO-ED1. The reference numbers included in each block correspond with the descriptions that follow.



(a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.
(b) Primarily pass through true-ups and £5 per residential customer reduction.

(c) Reference Form 8-K filed February 22, 2018 for U.K. Regulated Segment GAAP Statement of Income component values.
(d) Includes GAAP pension costs/income (see "Defined Benefits, Net periodic defined benefit costs (credits)" in Note 11 to the Financial Statements).
(e) Primarily property taxes.
(f) Primarily gains and losses on foreign currency hedges.
(g) Includes WPD interest and $32 million of allocated interest expense to finance the acquisition of WPD Midlands.
(h) GAAP income taxes represent an effective tax rate of 19% for 2017, 16% for 2016 and approximately 17% going forward.

(1) Base Revenue

The base revenue that a DNO can collect in each year of the current price control period is the sum of the following which are discussed further below:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion "*(4) Expenditure efficiency mechanisms*" below;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- pension deficit funding;
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion "*(6) Other revenue included in base revenue*" below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and,
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive.

(2) Real Return on capital from RAV

Real-time returns on cost of regulated equity (real) - Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD's base equity returns are calculated using an equity ratio of 35% of RAV at the DNO. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return, for 2017 and 2016 were £151 million and £144 million.

Indexed cost of debt recovery (real) - As part of WPD's fast-track agreement with Ofgem for RIIO-ED1, WPD collects in revenues an assumed real cost of debt that is derived from a historical 10-year bond index (iBoxx) and adjusted annually for inflation. This calculated real cost of debt is then applied to 65% of RAV at the DNOs to determine the cost of debt revenue recovery. The cost of debt was set at 2.55% in the original "well justified" business plans. The recovery amounts are trued up annually as a component of the MOD true-up mechanism described within "*(9) MOD and Inflation True-Up (TRU)*" below.

Actual interest expense is reflective of prior financing activities and any financing required to fund capital expenditures. Therefore, the amount collected in revenues may differ from the actual interest expense recorded in the Statements of Income. Currently, WPD is under-recovering its DNO-related interest expense and is expected to continue to under-recover through the remainder of RIIO-ED1.

Interest costs relating to debt issued at WPD's holding companies are not recovered in revenues and for 2017 and 2016 were approximately £49 million and £54 million.

(3) Recovery of depreciation in revenues - Recovery of depreciation in regulatory revenues is one of the key mechanisms Ofgem uses to support financeable business plans that provide incentives to attract the continued substantial investment required in the U.K. Differences between GAAP and regulatory depreciation exist primarily due to differing assumptions on asset lives and because RAV is adjusted for inflation using RPI.

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved near-term revenues and cash flows for DNOs during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After review and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs that fully demonstrated a need to ensure a financeable plan. WPD adopted a transition that has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets. Effective January 1, 2015 after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

Because Ofgem uses a real cost of capital, the RAV and recovery of depreciation are adjusted for inflation using RPI. The inflation revenues collected in this line item help recover the cost of equity and debt returns on a "nominal" basis, compared to the "real" rates used to set the return component of base revenues.

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2017 and 2016, this difference was £424 million and £415 million (pre-tax) and positively impacted net income. We expect this difference to continue in the £400 million to £450 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1) assuming RPI of approximately 3.0% per year from 2018 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

(4) Expenditure efficiency mechanisms - Ofgem introduced the concept of Totex in RIIO to ensure all DNOs face equal incentives in choosing between operating and capital solutions. Totex is split between immediate recovery (called "Fast pot") and deferred recovery as an addition to the RAV (called "Slow pot"). The ratio of Slow pot to Fast pot was determined by each DNO in their business plan development. WPD established a Totex split of 80% Slow pot and 20% Fast pot for RIIO-ED1 to balance maximizing RAV growth with immediate cost recovery to support investment grade credit ratings. Comparatively, other DNOs on average used a ratio of approximately 70% Slow pot and 30% Fast pot for RIIO-ED1.

Ofgem also allows a Totex Incentive Mechanism that is intended to reward DNOs for cost efficiency. WPD's DNOs are able to retain 70% of any amounts not spent against its RIIO-ED1 plan and bear 70% of any over-spends. Any amounts to be returned to customers are trued up in the AIP discussed below.

Because Fast pot cost recovery represents 20% of Totex expenditures and certain other costs are recovered in other aspects of revenue, Fast pot will not equal operation and maintenance expenses recorded for GAAP purposes.

(5) Income Tax Allowance - For price control purposes, WPD collects income tax based on Ofgem's notional tax charge, which will not equal the amount of income tax expense recorded for GAAP purposes. The following table shows the amount of taxes collected in revenues and recorded under GAAP.

	2017	2016
Taxes collected in revenues	£ 57	£ 53
Taxes recorded under GAAP	139	119

(6) Other revenue included in base revenue - Other revenue included in base revenue primarily consists of pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

<u>Recovery of annual (normal) pension cost and pension deficit funding</u> - Ofgem allows DNOs to recover annual (normal) pension costs through the Totex allocation, split between the previously described Fast pot (immediate recovery) and Slow pot recovery (as an addition to RAV). The amount of normal pension cost is computed by the pension trustees, using assumptions that differ from those used in calculating pension costs/income under GAAP. In addition, the timing of the revenue collection may not match the actual pension payment schedule, resulting in a timing difference of cash flows.

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £142 million and £139 million in 2017 and 2016.

See Note 11 to the Financial Statements for additional information on pension costs/income recognized under GAAP.

Recovery of pass through costs - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £19 million and £8 million in 2017 and 2016. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

Profiling adjustments - Ofgem permitted DNOs the flexibility to make profiling adjustments to their base revenues within their business plans. These adjustments do not affect the total base revenue in real terms over the eight-year price control period, but change the year in which the revenue is collected. In the first year of RIIO-ED1, WPD's base revenue decreased by 11.8% compared to the final year of the prior price control period (DPCR5), primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base revenue then increases by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2018 and by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

(7) Incentives for developing high-quality business plans (known as fast-tracking) - For RIIO-ED1, Ofgem incentivized DNOs with certain financial rewards to develop "well justified" business plans that drive value to customers. WPD was awarded the following incentives for being fast-tracked by Ofgem:

- an annual fast-track revenue incentive worth 2.5% of Totex (approximately £25 million annually for WPD);
- a real cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs; and,
- cost savings retention was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs.

(8) Allowed Revenue - Allowed revenue is the amount that a DNO can collect from its customers in order to fund its investment requirements.

Base revenues are adjusted annually during RIIO-ED1 to arrive at allowed revenues. These adjustments are discussed in sections (9) through (13) below.

(9) MOD and Inflation True-Up (TRU)

MOD - RIIO-ED1 includes an AIP that allows future base revenues, agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including taxes, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). The AIP calculates an incremental change to base revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.
- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year is a £39 million reduction to revenue and will reduce base revenue in calendar years 2018 and 2019 by £26 million and £13 million.
- The projected MOD for the 2017/18 regulatory year is a £45 million reduction to revenue and is expected to reduce base revenue in calendar years 2019 and 2020 by £30 million and £15 million.

TRU - As discussed below in "*(10) Inflation adjusted, multi-year rate cycle*," the base revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base revenue. Forecasted RPI is trued up to actuals and affects future base revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue and reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue and will reduce base revenue in calendar years 2018 and 2019 by £4 million and £2 million.
- The projected TRU for the 2017/18 regulatory year is a £5 million increase to revenue and is expected to increase base revenue in calendar years 2019 and 2020 by £3 million and £2 million.

As both MOD and TRU are changes to future base revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers. PPL's projected earnings per share growth rate through 2020 includes both the TRU and MOD for regulatory years 2015/16 and 2016/17 and the estimated TRU and MOD for 2017/18.

(10) Inflation adjusted, multi-year rate cycle - Ofgem built its price control framework to better coincide with the long-term nature of electricity distribution investments. The current price control for electricity distribution is for the eight-year period from April 1, 2015 through March 31, 2023. This both required and enabled WPD to design a base business plan with predictable revenues and expenses over the long-term to drive value for its customers through predetermined outputs and for its investors through preset base returns. A key aspect to the multi-year cycle is an annual inflation adjustment for revenue and cost components, which are inflated using RPI from the base 2012/13 prices used to establish the business plans. Consistent with Ofgem's formulas, the inflation adjustment is applied to base revenue, MOD and TRU when determining allowed revenue. This inflation adjustment also has the effect of inflating RAV, and real returns are earned on the inflated RAV.

(11) Incentive revenues for strong operational performance and innovation - Ofgem has established incentives to provide opportunities for DNOs to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. Some of the more significant incentives that may affect allowed revenue include the Interruptions Incentive Scheme (IIS), the broad measure of customer service (BMCS) and the time to connect (TTC) incentive:

- The IIS has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages.
- The BMCS encompasses customer satisfaction in supply interruptions, connections and general inquiries, complaints, stakeholder engagement and delivery of social obligations.
- The TTC incentive rewards DNOs for reducing connection times for minor connections against an Ofgem set target.

The annual incentives and penalties are reflected in customer rates on a two-year lag from the time they are earned and/or assessed. Based on applicable GAAP, incentive revenues and penalties are recorded in revenues when they are billed to customers. The following table shows the amount of incentive revenues (in total), primarily from IIS, BMCS and TTC that WPD has received and is projected to receive on a calendar year basis:

Calendar Year Ended Incentive Earned		Incentive Received (in millions)	Calendar Year Ended Incentive Included in Revenue
2014	£	83	2016
2015		79	2017
2016		76	2018
2017 (a)		65-80	2019
2018 (a)		70-85	2020

(a) Reflects projected incentive revenues.

(12) Correction Factor (K-factor) - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could over-recover revenue. Over- and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts during RIIO-ED1 will be refunded/recovered two regulatory years later. The K-factors created in the 2016/17 and 2015/16 regulatory years were not significant.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for the 2016/17 and 2017/18 regulatory years. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

(13) Other Allowed Revenue - Other Allowed Revenue primarily consists of pass through true-ups and £5 per residential customer reduction. For a discussion on property tax true-ups, see recovery of pass through costs in "*(6) Other revenue included in base revenue*" above.

In the 2016/17 regulatory year, WPD recovered a £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected in calendar years 2017 and 2016 by £13 million and £25 million.

(14) GAAP Operating Revenue - Operating revenue under GAAP primarily consists of allowed revenue that has been collected in the calendar year converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD's Telecoms and Property companies. For additional information on ancillary activity revenue, see footnote c in "Combined Management's Discussion and Analysis of Financial Conditions and Results of Operation - Reconciliation of Margins." The amounts of miscellaneous revenue for 2017 and 2016 were £90 million and £84 million, however, the margin or profit on these activities was not significant.

(15) Currency Hedging - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Overview-Financial and Operational Developments - U.K. Membership in European Union" in " Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of U.K. earnings hedging activity.

GAAP Accounting implications:

As the regulatory model in the U.K. is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment for the accelerated recovery of depreciation, pension deficit funding, cost of debt recovery, income tax recovery and the adjustments to base revenue and/or allowed revenue is evaluated primarily based on revenue recognition guidance.

See "Revenue Recognition" in Note 1 to the Financial Statements for additional information.

- ***Kentucky Regulated Segment*** *(PPL)*

  Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 411,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 326,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 525,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and three customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 10 municipalities in Kentucky under load following contracts.

Details of operating revenues, in millions, by customer class for the years ended December 31 are shown below.

	2017			2016			2015		
	Revenue		% of Revenue	Revenue		% of Revenue	Revenue		% of Revenue
LKE									
Commercial	$	854	27	$	834	27	$	816	26
Industrial		603	19		601	19		628	20
Residential		1,259	40		1,261	40		1,245	40
Other (a)		280	9		288	9		267	9
Wholesale - municipal		112	4		116	4		114	4
Wholesale - other (b)		48	1		41	1		45	1
Total	$	3,156	100	$	3,141	100	$	3,115	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues.

	2017			2016			2015		
	Revenue		% of Revenue	Revenue		% of Revenue	Revenue		% of Revenue
LG&E									
Commercial	$	453	31	$	442	31	$	436	30
Industrial		187	13		185	13		199	14
Residential		637	44		627	44		633	44
Other (a)		123	8		135	9		117	8
Wholesale - other (b)		53	4		41	3		59	4
Total	$	1,453	100	$	1,430	100	$	1,444	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

	2017			2016			2015		
	Revenue		% of Revenue	Revenue		% of Revenue	Revenue		% of Revenue
KU									
Commercial	$	401	23	$	392	22	$	380	22
Industrial		416	24		416	24		429	25
Residential		622	36		634	36		612	35
Other (a)		157	9		153	9		150	9
Wholesale - municipal		112	6		116	7		114	7
Wholesale - other (b)		36	2		38	2		43	2
Total	$	1,744	100	$	1,749	100	$	1,728	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels indirectly impact LG&E's natural gas revenues. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact LG&E's profitability. Some large industrial and commercial customers, however, may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

Power Supply

At December 31, 2017, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,017 MW, of which 2,920 MW related to LG&E and 5,097 MW related to KU, in Kentucky, Indiana, and Ohio.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2017, LKE's power plants generated the following amounts of electricity.

		GWh	
Fuel Source	LKE	LG&E	KU
Coal (a)	28,519	12,161	16,358
Gas	4,625	1,105	3,520
Hydro	337	278	59
Solar	18	7	11
Total (b)	33,499	13,551	19,948

(a) Includes 794 GWh of power generated by and purchased from OVEC for LKE, 549 GWh for LG&E and 245 GWh for KU.
(b) This generation represents a 3.7% decrease for LKE, a 0.3% increase for LG&E and a 6.3% decrease for KU from 2016 output.

The majority of LG&E's and KU's generated electricity was used to supply their retail and KU's municipal customer base.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail and municipal customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa.

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

In 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site. Additionally, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. As of December 31, 2017, LG&E and KU have not yet constructed the first solar share facility and are actively marketing the program and continue to receive interest from customers.

In 2015, KU retired two coal-fired units, with a combined capacity of 161 MW, at the Green River plant. Additionally, LG&E retired three coal-fired units with a combined capacity of 563 MW, at the Cane Run plant.

Fuel Supply

Coal and natural gas will continue to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2023 and augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana and southern Illinois. LG&E and KU continue to purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at Trimble County Unit 2. Coal is delivered to the generating plants primarily by barge and rail.

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2019 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as four other simple cycle units at the Cane Run and Paddy's Run sites. LG&E has also secured long-term firm pipeline transport capacity on an interstate pipeline for the summer months through October 2018 to serve an additional simple cycle gas turbine operated under a tolling agreement that ends April 30, 2019. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 for delivery in future months. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL, LKE and LG&E)

<u>*Natural Gas Distribution Supply*</u>

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services can be expected to be at their highest. At December 31, 2017, LG&E had 12 Bcf of natural gas stored underground with a carrying value of $43 million.

LG&E has a portfolio of supply arrangements of varying durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2020 and 2023. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

LG&E expects to purchase natural gas supplies for its gas distribution operations from onshore producing regions in South Texas, East Texas, North Louisiana and Arkansas, as well as gas originating in the Marcellus and Utica production areas.

(PPL, LKE, LG&E and KU)

<u>*Transmission*</u>

LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator and contract with TranServ International, Inc. to act as their independent transmission organization.

<u>*Rates*</u>

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC and the VSCC. LG&E and KU operate under a FERC-approved open access transmission tariff.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets in Kentucky.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, nine municipalities submitted notices of termination, under the 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 that terminated service in 2017.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of $59 million, LG&E base gas rates of $8 million and KU base electricity rates of $55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of $57 million, LG&E base gas rates of $7 million, KU base electricity rates of $52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately $15 million ($4 million for LG&E and $11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by $7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

TCJA Impact on LG&E and KU Rates

(PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues, $69 million in LG&E electricity revenues and $17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

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

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

- ***Pennsylvania Regulated Segment*** *(PPL)*

Consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply to retail customers in this area as a PLR under the Customer Choice Act.

Details of revenues, in millions, by customer class for the years ended December 31 are shown below.

	2017		2016		2015	
	Revenue	**% of Revenue**	**Revenue**	**% of Revenue**	**Revenue**	**% of Revenue**
Distribution						
Residential	$ 1,351	62	$ 1,327	61	$ 1,338	63
Industrial	44	2	42	2	58	3
Commercial	349	16	338	16	377	18
Other (a)	(36)	(2)	(4)	—	(44)	(2)
Transmission	487	22	453	21	395	18
Total	$ 2,195	100	$ 2,156	100	$ 2,124	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues and street lighting, offset by contra revenue associated with the network integration transmission service expense.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies, which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity distribution business. Pursuant to the Customer Choice Act, generation of electricity is a competitive business in Pennsylvania, and PPL Electric does not own or operate any generation facilities.

The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM.

Rates and Regulation

Transmission

PPL Electric's transmission facilities are within PJM, which operates the electricity transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved Regional Transmission Operator (RTO) to promote greater participation and competition in the region it serves. In addition to operating the electricity transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities. Certain types of transmission investment are subject to competitive processes outlined in the PJM tariff.

As a transmission owner, PPL Electric's transmission revenues are recovered through PJM and billed in accordance with a FERC-approved Open Access Transmission Tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability. Any change in the prior year PPL zonal peak load billing factor applied on January 1st of each year, will result in an increase or decrease in revenue until the next annual rate update goes into effect on June 1st of that same year.

As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

See Note 6 to the Financial Statements for additional information on rate mechanisms.

Distribution

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base; therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

Pennsylvania's Alternative Energy Portfolio Standard (AEPS) requires electricity distribution companies and electricity generation suppliers to obtain from alternative energy resources a portion of the electricity sold to retail customers in Pennsylvania. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 created an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct and changes to the existing AEPS.

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. PPL Electric has utilized the fully projected future test year mechanism in its 2015 base rate proceeding. PPL has had the ability to utilize the DSIC recovery mechanism since July 2013.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2017, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 46% of residential, 85% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities - Act 129" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which included 4 solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of 8 solicitations for electricity supply held semiannually in April and October. Pursuant to both the current and future plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-

month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Since the cost of generation supply is a pass-through cost for PPL Electric, its financial results are not impacted if its customers purchase electricity supply from these alternative suppliers.

TCJA Impact on PPL Electric Rates

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

(PPL)

- ***Corporate and Other***

PPL Services provides PPL subsidiaries with administrative, management and support services. The costs of these services are charged directly to the respective recipients for the services provided or indirectly charged to applicable recipients based on an average of the recipients' relative invested capital, operation and maintenance expenses and number of employees or a ratio of overall direct and indirect costs.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries. PPL's growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to utilize PPL Capital Funding as a source of capital in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky Regulated and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances beginning in 2013, with certain exceptions, have not been directly assigned or allocated to any segment.

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. 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's 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 or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

See Note 8 to the Financial Statements for additional information.

(All Registrants)

CYBERSECURITY MANAGEMENT

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has undertaken a variety of actions to monitor and address cyber-related risks. Cybersecurity and the effectiveness of PPL's cybersecurity strategy are regular topics of discussion at Board and Audit Committee meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within the company's enterprise risk management processes. PPL's Chief Information Security Officer (CISO), who reports directly to the Chief Executive Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. Among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization to strengthen secure behavior. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition to these enterprise-wide initiatives, PPL's Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by FERC to protect grid security and reliability. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2017	2016	2015	2014	2013
Income Items (in millions)					
Operating revenues	$ 7,447	$ 7,517	$ 7,669	$ 7,852	$ 7,263
Operating income	3,068	3,048	2,831	2,867	2,561
Income from continuing operations after income taxes attributable to PPL shareowners	1,128	1,902	1,603	1,437	1,368
Income (loss) from discontinued operations (net of income taxes) (f)	—	—	(921)	300	(238)
Net income attributable to PPL shareowners (f)	1,128	1,902	682	1,737	1,130
Balance Sheet Items (in millions)					
Total assets (d)	41,479	38,315	39,301	48,606	45,889
Short-term debt (d)	1,080	923	916	836	701
Long-term debt (d)	20,195	18,326	19,048	18,054	18,269
Common equity (d)	10,761	9,899	9,919	13,628	12,466
Total capitalization (d)	32,036	29,148	29,883	32,518	31,436
Financial Ratios					
Return on common equity - % (d)(f)	10.9	19.2	5.8	13.0	9.8
Ratio of earnings to fixed charges (c)	3.1	3.8	2.8	2.8	2.4
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	693,398	679,731	673,857	665,849	630,321
Weighted-average	685,240	677,592	669,814	653,504	608,983
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	$ 1.64	$ 2.80	$ 2.38	$ 2.19	$ 2.24
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	$ 1.64	$ 2.79	$ 2.37	$ 2.16	$ 2.12
Net income available to PPL common shareowners - Basic EPS	$ 1.64	$ 2.80	$ 1.01	$ 2.64	$ 1.85
Net income available to PPL common shareowners - Diluted EPS	$ 1.64	$ 2.79	$ 1.01	$ 2.61	$ 1.76
Dividends declared per share of common stock	$ 1.58	$ 1.52	$ 1.50	$ 1.49	$ 1.47
Book value per share (d)	$ 15.52	$ 14.56	$ 14.72	$ 20.47	$ 19.78
Market price per share	$ 30.95	$ 34.05	$ 34.13	$ 36.33	$ 30.09
Dividend payout ratio - % (e)(f)	96	55	149	57	84
Dividend yield - % (g)	5.1	4.5	4.4	4.1	4.9
Price earnings ratio (e)(f)(g)	18.9	12.2	33.8	13.9	17.1
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,084	2,177	2,241	2,365	2,383
Domestic - Electric energy delivered - retail	65,751	67,474	67,798	68,569	67,848
U.K. - Electric energy delivered	74,317	74,728	75,907	75,813	78,219

(a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2017, 2016 and 2015. The earnings for 2015, 2014 and 2013 were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for a discussion of discontinued operations in 2015.

(b) See Notes 1, 6 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.

(c) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short and long-term debt, amortization of debt discount, expense and premium-net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries.

(d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a $3.2 billion related dividend.

(e) Based on diluted EPS.

(f) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014 and 2013.

(g) Based on year-end market prices.

Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

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

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

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.

- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2017 with 2016 and 2016 with 2015. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

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

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

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

For a description of the Registrants and their businesses, see "Business."

Business Strategy

(All Registrants)

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

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

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

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment declined mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth in 2018 through at least 2020. See "Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

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

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

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

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

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants are:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

As a result, PPL expects cash flows at its domestic utilities to decline as the benefit of the lower U.S. federal corporate income tax rate is passed through to its utility customers. In addition, as PPL is not a current federal tax payer because of available net operating loss carry forwards, there is no immediate corporate cash benefit associated with the lower tax rate. The lack of cash benefit resulted in degradation of PPL's projected financial credit metrics. In an effort to maintain its current credit rating, PPL, among other things, currently plans to issue about $1 billion of equity in 2018. This compares to PPL's actual 2017 equity issuances of $482 million.

The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$ 321	$ (13)	$ 112	$ —	$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

At the date of enactment, the Registrants' deferred taxes were remeasured based upon the new U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The rate reduction on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$ 220	$ (13)	$ 112	$ —	$ —

For PPL's U.S. regulated operations, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	$ 2,185	$ 1,019	$ 1,166	$ 532	$ 634

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was $101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

See Note 5 to the Financial Statements for additional information.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European

Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of February 20, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of $1.34 per GBP, 100% hedged for 2019 at an average rate of $1.39 per GBP and 35% hedged for 2020 at an average rate of $1.46 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

Regulatory Requirements

(All Registrants)

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

(PPL)

RIIO-2 Framework Review

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter were published in September 2017 and will be used to guide the full RIIO-2 framework consultation which is expected to be published in March of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

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

RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO framework allows for a MPR of outputs halfway through the price control. Ofgem is consulting on three potential approaches:

- whether to implement a MPR as currently defined;
- whether to implement a MPR with an extension for WPD rail electrification; and
- whether to implement a MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication is that a MPR as currently defined under RIIO-ED1 is not required. In addition, Ofgem recognized that the rail electrification is outside the scope of the MPR and that implementing a MPR to include financial parameters could undermine the stability of the regulatory regime. The consultation, however, requests interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses have been submitted by PPL and WPD. A decision on whether to proceed with a MPR is expected in spring 2018. If Ofgem decides to launch a MPR, it will consult on detailed proposals in summer 2018 and any associated changes to DNO licenses would be in place by April 1, 2019. Although, PPL cannot predict the outcome of the consultation process, a MPR is not expected to have a significant impact on PPL's financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, ELGs and the Clean Power Plan. See Note 6, Note 13 and Note 19 to the Financial Statements for a discussion of these significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015. Additionally, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

Also as a result of the environmental requirements discussed above, LKE projects $828 million ($335 million at LG&E and $493 million at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 6 and Note 13 for additional information.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of $59 million, LG&E base gas rates of $8 million and KU base electricity rates of $55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of $57 million, LG&E base gas rates of $7 million, KU base electricity rates of $52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately $15 million ($4 million for LG&E and $11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by $7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues, $69 million in LG&E electricity revenues and $17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

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

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

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

Discontinued Operations (PPL)

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

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

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

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

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results.

				Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Operating Revenues	$ 7,447	$ 7,517	$ 7,669	$ (70)	$ (152)
Operating Expenses					
Operation					
Fuel	759	791	863	(32)	(72)
Energy purchases	685	706	855	(21)	(149)
Other operation and maintenance	1,635	1,745	1,938	(110)	(193)
Depreciation	1,008	926	883	82	43
Taxes, other than income	292	301	299	(9)	2
Total Operating Expenses	4,379	4,469	4,838	(90)	(369)
Other Income (Expense) - net	(255)	390	108	(645)	282
Interest Expense	901	888	871	13	17
Income Taxes	784	648	465	136	183
Income from Continuing Operations After Income Taxes	1,128	1,902	1,603	(774)	299
Loss from Discontinued Operations (net of income taxes)	—	—	(921)	—	921
Net Income	$ 1,128	$ 1,902	$ 682	$ (774)	$ 1,220

Operating Revenues

The increase (decrease) in operating revenues was due to:

	2017 vs. 2016	2016 vs. 2015
Domestic:		
PPL Electric Distribution price (a)	$ 53	$ 126
PPL Electric Distribution volume	(21)	(9)
PPL Electric PLR Revenue (b)	(16)	(135)
PPL Electric Transmission Formula Rate	34	59
LKE Base rates	58	68
LKE Volumes (c)	(73)	1
LKE Fuel and other energy prices (d)	10	(81)
LKE ECR	10	39
Other	(9)	(17)
Total Domestic	46	51
U.K.:		
Price	60	98
Volume	(30)	(36)
Foreign currency exchange rates	(154)	(255)
Other	8	(10)
Total U.K.	(116)	(203)
Total	$ (70)	$ (152)

(a) Distribution rider prices resulted in an increase of $47 million in 2017 compared with 2016. Distribution rate case effective January 1, 2016, resulted in an increase of $160 million in 2016 compared with 2015.
(b) Decrease in 2016 compared with 2015 was primarily due to lower energy purchase prices.
(c) Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.
(d) Decrease in 2016 compared with 2015 was due to lower recoveries of fuel and energy purchases due to lower commodity costs.

Fuel

Fuel decreased $32 million in 2017 compared with 2016 primarily due to a decrease in fuel usage driven by milder weather in 2017.

Fuel decreased $72 million in 2016 compared with 2015 primarily due to a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased $21 million in 2017 compared with 2016 primarily due to lower PLR prices of $17 million.

Energy purchases decreased $149 million in 2016 compared with 2015 primarily due to a $124 million decrease in PLR prices and a $12 million decrease in PLR volumes at PPL Electric and a $9 million decrease in the market price of natural gas and a $5 million decrease in natural gas volumes at LKE.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2017 vs. 2016	2016 vs. 2015
Domestic:		
LKE plant operations and maintenance (a)	$ (2)	$ (19)
LKE pension expense	1	(12)
PPL Electric payroll-related costs	(12)	(26)
PPL Electric Act 129	9	(15)
PPL Electric contractor related expenses	(4)	7
PPL Electric vegetation management	(17)	4
PPL Electric universal service programs	(3)	3
Storm costs	4	6
Bad debts	(17)	(5)
Stock compensation expense	5	(6)
Third-party costs related to the spinoff of PPL Energy Supply (Note 8)	—	(13)
Separation benefits related to the spinoff of PPL Energy Supply (Note 8)	—	(8)
Corporate costs previously included in discontinued operations	—	8
Other	(1)	18
U.K.:		
Pension expense (b)	(67)	(86)
Foreign currency exchange rates	(15)	(33)
Third-party engineering	6	(8)
Other	3	(8)
Total	$ (110)	$ (193)

(a) Includes a $29 million reduction of costs in 2016 compared with 2015 due to the retirement of Cane Run and Green River coal units partially offset by $5 million of additional costs for Cane Run Unit 7 plant operations.
(b) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs.

Depreciation

The increase (decrease) in depreciation was due to:

	2017 vs. 2016	2016 vs. 2015
Additions to PP&E, net	$ 93	$ 76
Foreign currency exchange rates	(16)	(27)
Depreciation rates (a)	15	—
Other	(10)	(6)
Total	$ 82	$ 43

(a) Higher depreciation rates were effective July 1, 2017 at LG&E and KU.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income was due to:

	2017 vs. 2016	2016 vs. 2015
State gross receipts tax (a)	$ 3	$ 11
Domestic property tax expense	4	4
Domestic capital stock tax	(6)	—
Foreign currency exchange rates	(8)	(15)
Other	(2)	2
Total	$ (9)	$ 2

(a) 2016 increased compared with 2015 due to the settlement of a 2011 gross receipts tax audit that resulted in the reversal of $17 million of previously recognized reserves in 2015.

Other Income (Expense) - net

Other income (expense) - net decreased $645 million in 2017 compared with 2016 and increased $282 million in 2016 compared with 2015 primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense was due to:

	2017 vs. 2016	2016 vs. 2015
Long-term debt interest expense (a)	$ 34	$ 63
Short-term debt interest	7	2
Hedging activities and ineffectiveness	1	(4)
Foreign currency exchange rates	(26)	(43)
Other	(3)	(1)
Total	$ 13	$ 17

(a) Interest expense increased in 2017 compared with 2016, primarily due to accretion on Index linked bonds at WPD and a debt issuance at PPL Electric in May 2017.

Interest expense increased in 2016 compared with 2015 primarily due to debt issuances at WPD in November 2015, LG&E and KU in September 2015 and PPL Capital Funding in May 2016 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

Income Taxes

The increase (decrease) in income taxes was due to:

	2017 vs. 2016	2016 vs. 2015
Change in pre-tax income at current period tax rates	$ (223)	$ 184
Valuation allowance adjustments (a)	20	(8)
Federal and state tax reserve adjustments (b)	—	22
Foreign income tax return adjustments	(10)	2
U.S. income tax on foreign earnings net of foreign tax credit (c)	89	(50)
Impact of U.K. Finance Acts (d)	33	42
Deferred tax impact of U.S. tax reform (e)	220	—
Stock-based compensation (f)	7	(10)
Other	—	1
Total	$ 136	$ 183

(a) During 2017, PPL recorded an increase in valuation allowances of $23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2017 and 2016, PPL recorded deferred income tax expense of $16 million and $13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded $24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of $12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and $12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

(b) During 2015, PPL recorded a $9 million income tax benefit related to a planned amendment of a prior period tax return and a $12 million income tax benefit related to the settlement of an IRS audit for the tax years 1998-2011.

(c) During 2017, PPL recorded a federal income tax benefit of $35 million primarily attributable to UK pension contributions.

During 2017, PPL recorded deferred income tax expense of $83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million, including $205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only $83 million of the $205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of $122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of $205 million offset by a valuation allowance of $122 million.

PPL recorded lower income taxes in 2016 compared with 2015 primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

(d) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a $42 million deferred income tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a $90 million deferred income tax benefit during 2015, related to both rate decreases.

(e) During 2017, PPL recorded deferred income tax expense for the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(f) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 to the Financial Statements for additional information.

See Note 5 to the Financial Statements for additional information on income taxes.

Loss from Discontinued Operations (net of income taxes)

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

Segment Earnings

PPL's net income by reportable segments were as follows:

	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
U.K. Regulated	$ 652	$ 1,246	$ 1,121	$ (594)	$ 125
Kentucky Regulated	286	398	326	(112)	72
Pennsylvania Regulated	359	338	252	21	86
Corporate and Other (a)	(169)	(80)	(96)	(89)	16
Discontinued Operations (b)	—	—	(921)	—	921
Net Income	$ 1,128	$ 1,902	$ 682	$ (774)	$ 1,220

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. 2017 includes $97 million of additional income tax expense related to the enactment of the TCJA. See Note 5 to the Financial Statements for additional information. 2015 includes certain costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

(b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's former Supply segment, the earnings of the Supply segment prior to the spinoff are included in Discontinued Operations. 2015 includes an $879 million charge reflecting the difference between PPL's recorded value for the Supply segment and its estimated fair value as of the spinoff date, determined in accordance with the applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Spinoff of the Supply segment.
- Gains and losses on sales of assets not in the ordinary course of business.

- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 17 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment were as follows:

	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
U.K. Regulated	$ 885	$ 1,015	$ 968	$ (130)	$ 47
Kentucky Regulated	395	398	343	(3)	55
Pennsylvania Regulated	349	338	252	11	86
Corporate and Other	(76)	(77)	(74)	1	(3)
Earnings from Ongoing Operations	$ 1,553	$ 1,674	$ 1,489	$ (121)	$ 185

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

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs. The U.K. Regulated segment represents 58% of PPL's Net Income for 2017 and 41% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Operating revenues	$ 2,091	$ 2,207	$ 2,410	$ (116)	$ (203)
Other operation and maintenance	272	344	477	(72)	(133)
Depreciation	230	233	242	(3)	(9)
Taxes, other than income	127	135	148	(8)	(13)
Total operating expenses	629	712	867	(83)	(155)
Other Income (Expense) - net	(261)	386	123	(647)	263
Interest Expense	397	402	417	(5)	(15)
Income Taxes	152	233	128	(81)	105
Net Income	652	1,246	1,121	(594)	125
Less: Special Items	(233)	231	153	(464)	78
Earnings from Ongoing Operations	$ 885	$ 1,015	$ 968	$ (130)	$ 47

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

	Income Statement Line Item	2017	2016	2015
Foreign currency economic hedges, net of tax of $59, $4, ($30) (a)	Other Income (Expense) - net	$ (111)	$ (8)	$ 55
U.S. tax reform (b)	Income Taxes	(122)	—	—
Settlement of foreign currency contracts, net of tax of $0, ($108), $0 (c)	Other Income (Expense) - net	—	202	—
Change in U.K. tax rate (d)	Income Taxes	—	37	78
WPD Midlands acquisition-related adjustment, net of tax of $0, $0, ($1)	Other operation and maintenance	—	—	2
Settlement of certain income tax positions (e)	Income Taxes	—	—	18
Total		$ (233)	$ 231	$ 153

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of $310 million ($202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.
(b) During 2017, PPL recorded deferred income tax expense for the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.
(c) In 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in $310 million of cash received ($202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income. See Note 17 to the Financial Statements for additional information.
(d) The U.K. Finance Acts of 2016 and 2015 reduced the U.K.'s statutory income tax rates. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016 and 2015. See Note 5 to the Financial Statements for additional information.
(e) Relates to the April 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.

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

	2017 vs. 2016	2016 vs. 2015
U.K.		
Gross margins	$ 30	$ 62
Other operation and maintenance	64	94
Depreciation	(14)	(18)
Interest expense	(21)	(28)
Other	(6)	(3)
Income taxes	11	(18)
U.S.		
Interest expense and other	1	(2)
Income taxes	(10)	41
Foreign currency exchange, after-tax	(185)	(81)
Earnings from Ongoing Operations	(130)	47
Special items, after-tax	(464)	78
Net Income	$ (594)	$ 125

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.

- Lower other operation and maintenance expense in 2017 compared with 2016 primarily due to $67 million from higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to $86 million from higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.

- Higher depreciation expense in 2017 compared with 2016 and 2016 compared with 2015, primarily due to additions to PP&E, net of retirements.

- Higher interest expense in 2017 compared with 2016 primarily due to higher interest expense on indexed linked bonds.

- Higher interest expense in 2016 compared with 2015 primarily due to $16 million higher long-term debt interest expense due to a debt issuance in November 2015 and $12 million higher interest expense on indexed linked bonds.

- Lower income taxes in 2017 compared with 2016 primarily due to decreases of $10 million related to accelerated tax deductions and $7 million from lower U.K. tax rates, partially offset by an increase of $11 million from higher pre-tax income.

- Higher income taxes in 2016 compared with 2015 primarily due to an increase of $21 million from higher pre-tax income, partially offset by a decrease of $7 million from lower U.K. tax rates.

U.S.

- Higher income taxes in 2017 compared with 2016 primarily due to a $37 million benefit related to foreign tax credit carryforwards in 2016, partially offset by a $29 million tax benefit on accelerated pension contributions made in the first quarter of 2017.

- Lower income taxes in 2016 compared with 2015 primarily due to a benefit related to foreign tax credit carryforwards in 2016.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 25% of PPL's Net Income for 2017 and 35% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Operating revenues	$ 3,156	$ 3,141	$ 3,115	$ 15	$ 26
Fuel	759	791	863	(32)	(72)
Energy purchases	178	171	184	7	(13)
Other operation and maintenance	806	804	837	2	(33)
Depreciation	439	404	382	35	22
Taxes, other than income	65	62	57	3	5
Total operating expenses	2,247	2,232	2,323	15	(91)
Other Income (Expense) - net	(3)	(9)	(13)	6	4
Interest Expense	261	260	232	1	28
Income Taxes	359	242	221	117	21
Net Income	286	398	326	(112)	72
Less: Special Items	(109)	—	(17)	(109)	17
Earnings from Ongoing Operations	$ 395	$ 398	$ 343	$ (3)	$ 55

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations.

	Income Statement Line Item	2017	2016	2015
U.S. tax reform (a)	**Income Taxes**	$ (112)	$ —	$ —
Adjustment to investment, net of tax of $0, $0, $0 (b)	Other Income (Expense) - net	(1)	—	—
Settlement of indemnification agreement, net of tax of ($2), $0, $0 (c)	**Other Income (Expense) - net**	4	—	—
Certain income tax valuation allowances (d)	Income Taxes	—	—	(12)
LKE acquisition - related adjustment, net of tax of $0, $0, $0 (e)	**Other Income (Expense) - net**	—	—	(5)
Total		$ (109)	$ —	$ (17)

(a) During 2017, LKE recorded deferred income tax expense related to the enactment of the TCJA associated with LKE's non-regulated entities. See Note 5 to the Financial Statements for additional information.

(b) KU recorded a write-off of an equity method investment.
(c) Recorded at LKE and represents the settlement of a WKE indemnification. See Note 13 to the financial statements for additional information.
(d) Recorded at LKE and represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
(e) Recorded at PPL and allocated to the Kentucky Regulated segment. The amount represents a settlement between E.ON AG (a German corporation and the indirect parent of E.ON US Investments Corp., the former parent of LKE) and PPL for a tax matter.

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

	2017 vs. 2016	2016 vs. 2015
Kentucky Gross Margins	$ 29	$ 83
Other operation and maintenance	—	42
Depreciation	(27)	(4)
Taxes, other than income	(2)	(4)
Other Income (Expense) - net	1	(1)
Interest Expense	(1)	(28)
Income Taxes	(3)	(33)
Earnings from Ongoing Operations	(3)	55
Special Items, after-tax	(109)	17
Net Income	$ (112)	$ 72

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.

- Lower other operation and maintenance expense in 2016 compared with 2015 primarily due to a $29 million reduction of costs as a result of coal units retired in 2015 at the Cane Run and Green River plants, partially offset by $5 million of additional costs for Cane Run Unit 7 plant operations and $12 million of lower pension expense mainly due to higher discount rates and deferred amortization of actuarial losses.

- Higher depreciation expense in 2017 compared with 2016 primarily due to additions to PP&E, net of retirements, and higher depreciation rates effective July 1, 2017.

- Higher income taxes in 2016 compared with 2015 primarily due to higher pre-tax income at current period tax rates.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 32% of PPL's Net Income for 2017 and 24% of PPL's assets at December 31, 2017.

Net Income and Earnings from Ongoing Operations include the following results.

				Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Operating revenues	$ 2,195	$ 2,156	$ 2,124	$ 39	$ 32
Energy purchases					
External	507	535	657	(28)	(122)
Intersegment	—	—	14	—	(14)
Other operation and maintenance	571	601	607	(30)	(6)
Depreciation	309	253	214	56	39
Taxes, other than income	107	105	94	2	11
Total operating expenses	1,494	1,494	1,586	—	(92)
Other Income (Expense) - net	16	17	8	(1)	9
Interest Expense	142	129	130	13	(1)
Income Taxes	216	212	164	4	48
Net Income	359	338	252	21	86
Less: Special Items	10	—	—	10	—
Earnings from Ongoing Operations	$ 349	$ 338	$ 252	$ 11	$ 86

The following after-tax gain, which management considers a special item, impacted the Pennsylvania Regulated segment's results and is excluded from Earnings from Ongoing Operations.

	Income Statement Line Item	2017	2016	2015
U.S. tax reform (a)	Income Taxes	$ 10	$ —	$ —
Total		$ 10	$ —	$ —

(a) During 2017, PPL recorded a deferred income tax benefit for the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.

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

	2017 vs. 2016	2016 vs. 2015
Pennsylvania Gross Margins	$ 31	$ 177
Other operation and maintenance	42	—
Depreciation	(35)	(39)
Taxes, other than income	1	(14)
Other Income (Expense) - net	(1)	9
Interest Expense	(13)	1
Income Taxes	(14)	(48)
Earnings from Ongoing Operations	11	86
Special Item, after-tax	10	—
Net Income	$ 21	$ 86

- See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.

- Lower other operation and maintenance expense for 2017 compared with 2016 primarily due to $17 million of lower bad debt expense, $17 million of lower vegetation management expense and $12 million of lower payroll related expenses, partially offset by $19 million of higher corporate service costs allocated to PPL Electric.

- Other operation and maintenance expense for 2016 was comparable with 2015 primarily due to $26 million of lower payroll related expenses, partially offset by $8 million of higher corporate service costs allocated to PPL Electric, $8 million of higher costs for additional work done by outside vendors and other costs, which were not individually significant in comparison to the prior year.

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

- Higher taxes, other than income for 2016 compared with 2015 primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves in 2015.

- Higher interest expense for 2017 compared with 2016 primarily due to the issuance of $475 million of 3.950% First Mortgage Bonds in May 2017.

- Higher income taxes for both periods primarily due to higher pre-tax income at current period tax rates.

Reconciliation of Earnings from Ongoing Operations

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

	2017				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$ 652	$ 286	$ 359	$ (169)	$ 1,128
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $59	(111)	—	—	—	(111)
Spinoff of the Supply segment, net of tax of ($1)	—	—	—	4	4
Other:					
U.S. tax reform (a)	(122)	(112)	10	(97)	(321)
Adjustment to investment, net of tax of $0	—	(1)	—	—	(1)
Settlement of indemnification agreement, net of tax of ($2)	—	4	—	—	4
Total Special Items	(233)	(109)	10	(93)	(425)
Earnings from Ongoing Operations	$ 885	$ 395	$ 349	$ (76)	$ 1,553

(a) During 2017, PPL recorded deferred income tax (expense) benefit related to the enactment of the TCJA. See Note 5 to the Financial Statements for additional information.

	2016				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$ 1,246	$ 398	$ 338	$ (80)	$ 1,902
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $4	(8)	—	—	—	(8)
Spinoff of the Supply segment, net of tax of $2	—	—	—	(3)	(3)
Other:					
Settlement of foreign currency contracts, net of tax of ($108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	231	—	—	(3)	228
Earnings from Ongoing Operations	$ 1,015	$ 398	$ 338	$ (77)	$ 1,674

	2015					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	$ 1,121	$ 326	$ 252	$ (96)	$ (921)	$ 682
Less: Special Items (expense) benefit:						
Foreign currency economic hedges, net of tax of ($30)	55	—	—	—	—	55
Spinoff of the Supply segment:						
Discontinued operations, net of tax of $30	—	—	—	—	(921)	(921)
Transition and transaction costs, net of tax of $6	—	—	—	(12)	—	(12)
Employee transitional services, net of tax of $2	—	—	—	(5)	—	(5)
Separation benefits, net of tax of $3	—	—	—	(5)	—	(5)
Other						
Change in U.K. tax rate	78	—	—	—	—	78
Settlement of certain income tax positions	18	—	—	—	—	18
WPD Midlands acquisition-related adjustment, net of tax of ($1)	2	—	—	—	—	2
Certain income tax valuation allowances	—	(12)	—	—	—	(12)
LKE acquisition-related adjustment, net of tax of $0	—	(5)	—	—	—	(5)
Total Special Items	153	(17)	—	(22)	(921)	(807)
Earnings from Ongoing Operations	$ 968	$ 343	$ 252	$ (74)	$ —	$ 1,489

Margins

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

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

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

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

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

Changes in Margins

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

				Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
U.K. Regulated					
U.K. Gross Margins	$ 1,952	$ 2,067	$ 2,243	$ (115)	$ (176)
Impact of changes in foreign currency exchange rates				(145)	(238)
U.K. Gross Margins excluding impact of foreign currency exchange rates				$ 30	$ 62
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	$ 910	$ 887	$ 867	$ 23	$ 20
KU	1,128	1,122	1,059	6	63
Total Kentucky Gross Margins	$ 2,038	$ 2,009	$ 1,926	$ 29	$ 83
Pennsylvania Regulated					
Pennsylvania Gross Margins					
Distribution	$ 958	$ 960	$ 842	$ (2)	$ 118
Transmission	487	454	395	33	59
Total Pennsylvania Gross Margins	$ 1,445	$ 1,414	$ 1,237	$ 31	$ 177

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2017 compared with 2016 primarily due to $81 million from the April 1, 2016 price increase, partially offset by $30 million from lower volumes and $21 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2016 compared with 2015 primarily due to $166 million from the April 1, 2016 price increase, which included $39 million of the recovery of prior customer rebates, and $21 million of other revenue adjustments in the first quarter of 2016, partially offset by $89 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1 and $36 million from lower volumes.

Kentucky Gross Margins

Kentucky Gross Margins increased in 2017 compared with 2016 primarily due to higher base rates of $58 million ($32 million at LG&E and $26 million at KU) and gas cost recoveries added to base rates of $5 million at LG&E, partially offset by $41 million of lower sales volumes due to milder weather in 2017 ($15 million at LG&E and $26 million at KU).

The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2017. The gas cost recoveries added to base rates were the result of the transfer of certain GLT expenses into base rates as a result of the 2016 Kentucky rate case. This transfer results in depreciation and other operation and maintenance expenses associated with the GLT program being excluded from margins in the second half of 2017, while the recovery of such costs remain in Kentucky Gross Margins through base rates.

Kentucky Gross Margins increased in 2016 compared with 2015 primarily due to higher base rates of $68 million ($4 million at LG&E and $64 million at KU) and returns on additional environmental capital investments of $13 million at LG&E. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015.

Pennsylvania Gross Margins

Distribution

Distribution margins decreased in 2017 compared with 2016 primarily due to $10 million of lower electricity sales volumes due to milder weather in 2017, partially offset by $7 million of returns on additional Smart Meter capital investments.

Distribution margins increased in 2016 compared with 2015 primarily due to $121 million of higher base rates, effective January 1, 2016 as a result of the 2015 rate case.

Transmission

Transmission margins increased in 2017 compared with 2016 primarily due to an increase of $51 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a $17 million decrease as a result of a lower PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Transmission margins increased in 2016 compared with 2015 primarily due to returns on additional capital investments focused on replacing aging infrastructure and improving reliability.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31.

	2017				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 2,050 (c)	$ 3,156	$ 2,195	$ 46	$ 7,447
Operating Expenses					
Fuel	—	759	—	—	759
Energy purchases	—	178	507	—	685
Other operation and maintenance	98	111	120	1,306	1,635
Depreciation	—	64	21	923	1,008
Taxes, other than income	—	6	102	184	292
Total Operating Expenses	98	1,118	750	2,413	4,379
Total	$ 1,952	$ 2,038	$ 1,445	$ (2,367)	$ 3,068

	2016				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 2,165 (c)	$ 3,141	$ 2,156	$ 55	$ 7,517
Operating Expenses					
Fuel	—	791	—	—	791
Energy purchases	—	171	535	—	706
Other operation and maintenance	98	109	108	1,430	1,745
Depreciation	—	56	—	870	926
Taxes, other than income	—	5	99	197	301
Total Operating Expenses	98	1,132	742	2,497	4,469
Total	$ 2,067	$ 2,009	$ 1,414	$ (2,442)	$ 3,048

	2015				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 2,364 (c)	$ 3,115	$ 2,124	$ 66	$ 7,669
Operating Expenses					
Fuel	—	863	—	—	863
Energy purchases	—	184	657	14	855
Energy purchases from affiliate	—	—	14	(14)	—
Other operation and maintenance	121	100	114	1,603	1,938
Depreciation	—	38	—	845	883
Taxes, other than income	—	4	102	193	299
Total Operating Expenses	121	1,189	887	2,641	4,838
Total	$ 2,243	$ 1,926	$ 1,237	$ (2,575)	$ 2,831

(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) 2017, 2016 and 2015 exclude $41 million, $42 million and $46 million of ancillary activity revenues.

2018 Outlook

(PPL)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is primarily attributable to increases in the U.K. Regulated and Pennsylvania Regulated segments. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

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

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be lower, driven primarily by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses, partially offset by an assumed return to normal weather and higher base electricity and gas rates effective July 1, 2017.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, driven primarily by higher transmission earnings and lower operation and maintenance expense, partially offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be flat in 2018 compared to 2017, due to a lower tax shield on holding company interest expense offset by lower financing costs.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Business," the rest of this section, and Notes 1, 6 and 13 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

Financial Condition

Liquidity and Capital Resources

(All Registrants)

The Registrants' cash flows from operations and access to cost effective bank and capital markets are subject to risks and uncertainties.

The Registrants had the following at:

		PPL (a)		PPL Electric		LKE		LG&E		KU
December 31, 2017										
Cash and cash equivalents	$	485	$	49	$	30	$	15	$	15
Short-term debt		1,080		—		244		199		45
Long-term debt due within one year		348		—		98		98		—
Notes payable with affiliates				—		225		—		—
December 31, 2016										
Cash and cash equivalents	$	341	$	13	$	13	$	5	$	7
Short-term debt		923		295		185		169		16
Long-term debt due within one year		518		224		194		194		—
Notes payable with affiliates				—		163		—		—
December 31, 2015										
Cash and cash equivalents	$	836	$	47	$	30	$	19	$	11
Short-term debt		916		—		265		142		48
Long-term debt due within one year		485		—		25		25		—
Notes payables with affiliates				—		54		—		—

(a) At December 31, 2017, $58 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

(PPL)

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

(All Registrants)

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

		PPL		PPL Electric		LKE		LG&E		KU
2017										
Operating activities	$	2,461	$	880	$	1,099	$	512	$	634
Investing activities		(3,156)		(1,252)		(888)		(458)		(428)
Financing activities		824		408		(194)		(44)		(198)
2016										
Operating activities	$	2,890	$	872	$	1,027	$	482	$	606
Investing activities		(2,918)		(1,130)		(790)		(439)		(349)
Financing activities		(439)		224		(254)		(57)		(261)
2015										
Operating activities	$	2,272	$	602	$	1,063	$	554	$	608
Investing activities		(3,439)		(1,108)		(1,203)		(689)		(512)
Financing activities		482		339		149		144		(96)
2017 vs. 2016 Change										
Operating activities	$	(429)	$	8	$	72	$	30	$	28
Investing activities		(238)		(122)		(98)		(19)		(79)
Financing activities		1,263		184		60		13		63
2016 vs. 2015 Change										
Operating activities	$	618	$	270	$	(36)	$	(72)	$	(2)
Investing activities		521		(22)		413		250		163
Financing activities		(921)		(115)		(403)		(201)		(165)

Operating Activities

The components of the change in cash provided by (used in) operating activities were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Net income	$ (774)	$ 22	$ (113)	$ 10	$ (6)
Non-cash components	363	100	31	(8)	42
Working capital	38	(87)	93	(33)	(14)
Defined benefit plan funding	(138)	(24)	50	42	(3)
Other operating activities	82	(3)	11	19	9
Total	$ (429)	$ 8	$ 72	$ 30	$ 28
2016 vs. 2015					
Change - Cash Provided (Used):					
Net income	$ 299	$ 88	$ 65	$ 18	$ 31
Non-cash components	195	40	66	20	(20)
Working capital	47	101	(206)	(100)	(51)
Defined benefit plan funding	72	33	(15)	(20)	1
Other operating activities	5	8	54	10	37
Total	$ 618	$ 270	$ (36)	$ (72)	$ (2)

(PPL)

PPL had a $429 million decrease in cash provided by operating activities from continuing operations in 2017 compared with 2016.

- Net income declined $774 million between periods and included net non-cash benefits of $363 million. The increase in net non-cash benefits was primarily due to an increase in unrealized losses on hedging activities, an increase in deferred income taxes (primarily due to the impact of the TCJA) and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates at LG&E and KU effective July 1, 2017, partially offset by the impact of foreign currency at WPD), partially offset by an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs (credits) and increase in expected returns).

- The $38 million increase in cash from changes in working capital was primarily due a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, materials and supplies (primarily due to a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016), partially offset by a decrease in accounts payable (due to timing of payments), a decrease in taxes payable (primarily due to the timing of payments) and an increase in accounts receivable.

- Defined benefit plan funding was $138 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans.

PPL had a $618 million increase in cash provided by operating activities from continuing operations in 2016 compared with 2015.

- Net income improved by $299 million between the periods. This included an additional $195 million of net non-cash benefits, including a $132 million increase in deferred income taxes and $96 million of lower unrealized gains on hedging activity (primarily due to the settlement of hedges in the third quarter of 2016) partially offset by a $96 million increase in defined benefit plan income (primarily due to an increase in estimated returns on higher asset balances and lower interest costs due to a change in the discount rate for the U.K. pension plans).

- The $47 million increase in cash from changes in working capital was primarily due to an increase in taxes payable (due to timing of payments) and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in unbilled revenues (primarily due to favorable weather compared to December 2015), an increase in net regulatory assets/liabilities (due to timing of rate recovery mechanisms) and an increase in accounts receivable (primarily due to increased volumes and favorable weather in 2016).

- Defined benefit plan funding was $72 million lower in 2016.

(PPL Electric)

PPL Electric had an $8 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by $22 million between the periods. This included an additional $100 million of net non-cash benefits primarily due to a $56 million increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements) and a $37 million increase in deferred income taxes (primarily due to book versus tax plant timing differences).

- The $87 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to a 2017 federal income tax benefit refund, not yet received), a decrease in accounts payable (primarily due to timing of payments) and an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016), partially offset by an decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016).

- Pension funding was $24 million higher in 2017 due to contributions made in 2017 to the PPL Retirement Plan.

PPL Electric had an $270 million increase in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by $88 million between the periods. This included an additional $40 million of net non-cash benefits primarily due to a $39 million increase in depreciation expense (primarily due to the replacement of aging infrastructure and to ensure system reliability).

- The $101 million increase in cash from changes in working capital was primarily due to an increase in accounts payable (primarily due to timing of payments), an increase in taxes payable (primarily due to timing of payments) and a decrease in prepayments (primarily due to higher tax payments in 2015), partially offset by an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), an increase in unbilled revenues (primarily due to higher volumes and favorable weather compared to December 2015) and an increase in accounts receivable.

- Pension funding was $33 million lower in 2016.

(LKE)

LKE had a $72 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income declined by $113 million and included an increase of $31 million of net non-cash charges primarily due to a $35 million increase in depreciation expense and a $3 million increase in deferred income taxes due to the impact of the TCJA, largely offset by book versus tax plant timing differences and reduced benefit from net operating losses.

- The increase in cash from changes in working capital was driven primarily by an increase in other current liabilities due to customer advances and the timing of payments, a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016, an increase in taxes payable due to the timing of payments, partially offset by a decrease in accounts payable due to the timing of payments.

- Defined benefit plan funding was $50 million lower in 2017.

LKE had a $36 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by $65 million and included an increase of $66 million of net non-cash charges primarily due to a $55 million increase in deferred income taxes and a $22 million increase in depreciation expense.

- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from PPL for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and a decrease in taxes payable due to the timing of payments, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.

- Defined benefit plan funding was $15 million higher in 2016.

- The increase in cash from LKE's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

(LG&E)

LG&E had a $30 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by $10 million and included a decrease of $8 million of net non-cash charges primarily due to a $21 million decrease in deferred income taxes largely due to book versus tax plant timing differences, partially offset by a $13 million increase in depreciation expense.

- The decrease in cash from changes in working capital was driven primarily by decreases in accounts payable and taxes payable due to the timing of payments, partially offset by a decrease in accounts receivable from affiliates due to lower intercompany settlements associated with energy sales and inventory and an increase in other current liabilities due to customer advances and the timing of payments.

- Defined benefit plan funding was $42 million lower in 2017.

- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps.

LG&E had a $72 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by $18 million and included an increase of $20 million of net non-cash charges primarily due to a $21 million increase in deferred income taxes.

- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, and an increase in accounts receivable from affiliates due to higher intercompany settlements associated with energy sales and inventory, partially offset by an increase in accounts payable due to the timing of fuel purchases and payments.

- Defined benefit plan funding was $20 million higher in 2016.

- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

(KU)

KU had a $28 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income declined by $6 million and included an increase of $42 million of net non-cash charges primarily due to an increase of $26 million in deferred income taxes largely due to the utilization of net operating losses and an increase of $21 million in depreciation expense.

- The decrease in cash from changes in working capital was driven primarily by a decrease in taxes payable due to the timing of payments and a decrease in accounts payable to affiliates due to lower intercompany settlements associated with energy purchases and inventory, partially offset by a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016 and an increase in accounts payable due to the timing of payments.

KU had a $2 million decrease in cash provided by operating activities in 2016 compared with 2015.

- Net income improved by $31 million and included a decrease of $20 million of net non-cash charges primarily due to a $34 million decrease in deferred income taxes, partially offset by a $14 million increase in depreciation expense.

- The decrease in cash from changes in working capital was driven primarily by lower tax payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and unbilled revenues due to more favorable weather in December 2016 compared to December 2015, partially offset by an increase in accounts payable to affiliates due to higher intercompany settlements associated with energy purchases and inventory, and an increase in taxes payable due to the timing of payments.

- The increase in cash from KU's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps, partially offset by an increase in ARO expenditures.

Investing Activities

(All Registrants)

The components of the change in cash provided by (used in) investing activities were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Expenditures for PP&E	$ (213)	$ (119)	$ (101)	$ (19)	$ (82)
Investment activity, net	(2)	—	—	—	—
Other investing activities	(23)	(3)	3	—	3
Total	$ (238)	$ (122)	$ (98)	$ (19)	$ (79)
2016 vs. 2015					
Change - Cash Provided (Used):					
Expenditures for PP&E	$ 613	$ (28)	$ 419	$ 250	$ 169
Investment activity, net	(134)	—	—	—	—
Other investing activities	42	6	(6)	—	(6)
Total	$ 521	$ (22)	$ 413	$ 250	$ 163

For PPL, in 2017 compared with 2016, higher project expenditures at PPL Electric, LKE, LG&E and KU were partially offset by lower project expenditures at WPD. The increase in project expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek plant, CCR projects at the Trimble County plant and increased spending on various transmission projects at KU, partially offset by lower spending driven by completion of environmental air projects. The decrease in expenditures at WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability.

For PPL, in 2016 compared with 2015, lower project expenditures at WPD, LKE, LG&E and KU were partially offset by higher project expenditures at PPL Electric. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures for LG&E was primarily driven by the completion of the environmental air projects at LG&E's Mill Creek Plant. The decrease in expenditures for KU was primarily driven by the completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant. The increase in expenditures for PPL Electric was primarily due to the Northern Lehigh and Greater Scranton transmission reliability projects and other various transmission and distribution projects, partially offset by the completion of the Northeast Pocono reliability project and Susquehanna-Roseland transmission project.

The change in "Investment activity, net" for 2016 compared with 2015 resulted from PPL receiving $136 million during 2015 for the sale of short-term investments.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2018 through 2022.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$ 935	$ 470	$ 115	$ 115	$ —
Stock issuances/redemptions, net	309	—	—	—	—
Dividends	(42)	(48)	—	(64)	22
Capital contributions/distributions, net		355	(147)	(41)	(20)
Changes in net short-term debt (a)	86	(590)	92	3	61
Other financing activities	(25)	(3)	—	—	—
Total	$ 1,263	$ 184	$ 60	$ 13	$ 63

	PPL	PPL Electric	LKE	LG&E	KU
2016 vs. 2015					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$ (824)	$ (248)	$ (175)	$ (325)	$ (250)
Debt issuance/retirement, affiliate		—	(400)	—	—
Stock issuances/redemptions, net	(59)	—	—	—	—
Dividends	(26)	(107)	—	(9)	(95)
Capital contributions/distributions, net		(55)	(161)	(19)	20
Changes in net short-term debt (a)	(65)	295	326	149	156
Other financing activities	53	—	7	3	4
Total	$ (921)	$ (115)	$ (403)	$ (201)	$ (165)

(a) Includes net increase (decrease) in notes payable with affiliates.

(PPL)

For PPL, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures and a decrease in cash from operations of $429 million.

For PPL, in 2016 compared with 2015, cash provided by financing activities decreased primarily due to improvements in cash from operations of $618 million.

(PPL Electric)

For PPL Electric, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general expenditures.

For PPL Electric, in 2016 compared with 2015, cash provided by financing activities decreased primarily due to improvements in cash from operations of $270 million.

(LKE, LG&E and KU)

For LKE, LG&E and KU, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures.

For LKE, LG&E and KU, in 2016 compared with 2015, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general corporate expenditures.

(All Registrants)

See "Long-term Debt and Equity Securities" below for additional information on current year activity. See "Forecasted Sources of Cash" for a discussion of the Registrants' plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to the Registrants. Also see "Forecasted Uses of Cash" for a discussion of PPL's plans to pay dividends on common securities in the future, as well as the Registrants' maturities of long-term debt.

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2017 included:

	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
Cash Flow Impact:			
PPL	$ 1,515	$ 168	$ 453
PPL Electric	470	—	
LKE	160	70	
LG&E	160	70	
KU	—	—	

(a) Issuances are net of pricing discounts, where applicable, and exclude the impact of debt issuance costs.

See Note 7 to the Financial Statements for additional information about long-term debt.

ATM Program *(PPL)*

During 2017, PPL issued 10,373 thousand shares of common stock under the program, receiving net proceeds of $377 million. The compensation paid to the selling agents by PPL may be up to 1% of the gross offering proceeds of the shares sold with respect to each equity distribution agreement. See Note 7 to the Financial Statements for additional information about the ATM Program.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2018.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At December 31, 2017, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	$ 1,400	$ —	$ 248	$ 1,152
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facilities	700	100	199	401
KU Credit Facilities	598	—	243	355
Total LKE Consolidated	1,373	100	442	831
Total U.S. Credit Facilities (a) (b)	$ 3,423	$ 100	$ 691	$ 2,632
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 448	£ —	£ 605

(a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.

The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric 7%, LKE - 18%, LG&E - 33% and KU - 37%.

(b) Each company pays customary fees under its respective syndicated credit facility, as does LG&E under its term loan agreement and KU under its letter of credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(c) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

The amounts borrowed at December 31, 2017, include a USD-denominated borrowing of $200 million and GBP-denominated borrowings of £300 million, which equated to $406 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £150 million as of the date borrowed. At December 31, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was $819 million.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 20% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2017, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	$ 275	$ 225	$ —	$ 50
LG&E Money Pool (a)	500	—	199	301
KU Money Pool (a)	500	—	45	455

(a) LG&E and KU participate in an intercompany agreement whereby LKE, LG&E and/or KU make available funds up to $500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has authorized a maximum aggregate short-term debt limit for each utility at $500 million from all covered sources.

See Note 14 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

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

	December 31, 2017		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	$ 1,000	$ 230	$ 770
PPL Electric	650	—	650
LG&E	350	199	151
KU	350	45	305
Total LKE	700	244	456
Total PPL	$ 2,350	$ 474	$ 1,876

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to incur, subject to market conditions, up to $3.2 billion of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

PPL is authorized to issue, subject to market conditions, up to $3.5 billion of equity over three years.

(PPL Electric)

PPL Electric is authorized to incur, subject to market conditions, up to $650 million of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E is authorized to incur, subject to market conditions and regulatory approvals, up to $200 million of long-term indebtedness in 2018, of which $100 million was issued in January 2018. The proceeds would be used to fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, $98 million of its Pollution Control Bonds with put dates in 2018.

KU is authorized to incur, subject to market conditions and regulatory approvals, up to $100 million of long-term indebtedness in 2018, the proceeds of which would be used to fund capital expenditures.

Contributions from Parent/Member (PPL Electric, LKE, LG&E and KU)

From time to time, LKE's member or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

Forecasted Uses of Cash

(All Registrants)

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by LKE to its member, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2018 through 2022. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	2018 (b)	2019	Projected 2020	2021	2022
PPL						
Construction expenditures (a)						
Generating facilities	$ 892	$ 238	$ 253	$ 124	$ 204	$ 73
Distribution facilities	9,244	1,875	1,819	1,851	1,863	1,836
Transmission facilities	3,771	902	854	883	628	504
Environmental	828	429	191	91	62	55
Other	685	127	201	193	117	47
Total Capital Expenditures	$ 15,420	$ 3,571	$ 3,318	$ 3,142	$ 2,874	$ 2,515
PPL Electric (a)						
Distribution facilities	$ 2,077	$ 476	$ 404	$ 403	$ 396	$ 398
Transmission facilities	2,901	757	686	692	404	362
Total Capital Expenditures	$ 4,978	$ 1,233	$ 1,090	$ 1,095	$ 800	$ 760
LKE						
Generating facilities	$ 892	$ 238	$ 253	$ 124	$ 204	$ 73
Distribution facilities	1,699	347	388	360	338	266
Transmission facilities	870	144	169	190	225	142
Environmental	828	429	191	91	62	55
Other	663	119	196	189	114	45
Total Capital Expenditures	$ 4,952	$ 1,277	$ 1,197	$ 954	$ 943	$ 581
LG&E						
Generating facilities	$ 408	$ 127	$ 108	$ 35	$ 94	$ 44
Distribution facilities	1,084	223	265	233	210	153
Transmission facilities	161	27	36	36	40	22
Environmental	335	176	83	38	22	16
Other	331	58	97	94	58	24
Total Capital Expenditures	$ 2,319	$ 611	$ 589	$ 436	$ 424	$ 259
KU						
Generating facilities	$ 484	$ 111	$ 145	$ 89	$ 110	$ 29
Distribution facilities	615	124	123	127	128	113
Transmission facilities	709	117	133	154	185	120
Environmental	493	253	108	53	40	39
Other	332	61	99	95	56	21
Total Capital Expenditures	$ 2,633	$ 666	$ 608	$ 518	$ 519	$ 322

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately $84 million for PPL and $62 million for PPL Electric.
(b) The 2018 total excludes amounts included in accounts payable as of December 31, 2017.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2018 with proceeds from the sources noted below.

Source	PPL	PPL Electric	LKE	LG&E	KU
Issuance of common stock	X				
Issuance of long-term debt securities	X	X	X	X	
Equity contributions from parent/member		X		X	X
Short-term debt	X	X	X	X	X

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2017, estimated contractual cash obligations were as follows:

	Total	2018	2019 - 2020	2021 - 2022	After 2022
PPL					
Long-term Debt (a)	$ 20,282	$ 348	$ 1,708	$ 2,424	$ 15,802
Interest on Long-term Debt (b)	15,318	868	1,723	1,529	11,198
Operating Leases (c)	96	28	27	16	25
Purchase Obligations (d)	3,636	1,121	1,374	563	578
Other Long-term Liabilities Reflected on the Balance Sheet (e)	565	293	272	—	—
Total Contractual Cash Obligations	$ 39,897	$ 2,658	$ 5,104	$ 4,532	$ 27,603
PPL Electric					
Long-term Debt (a)	$ 3,339	$ —	$ 100	$ 874	$ 2,365
Interest on Long-term Debt (b)	2,894	141	282	260	2,211
Unconditional Power Purchase Obligations	77	23	45	9	—
Total Contractual Cash Obligations	$ 6,310	$ 164	$ 427	$ 1,143	$ 4,576
LKE					
Long-term Debt (a)	$ 5,200	$ 98	$ 1,405	$ 250	$ 3,447
Interest on Long-term Debt (b)	3,120	199	388	300	2,233
Operating Leases (c)	82	26	27	14	15
Coal and Natural Gas Purchase Obligations (f)	1,955	582	930	375	68
Unconditional Power Purchase Obligations (g)	593	29	53	54	457
Construction Obligations (h)	500	305	147	48	—
Pension Benefit Plan Obligations (e)	105	105	—	—	—
Other Obligations	417	151	143	70	53
Total Contractual Cash Obligations	$ 11,972	$ 1,495	$ 3,093	$ 1,111	$ 6,273
LG&E					
Long-term Debt (a)	$ 1,724	$ 98	$ 334	$ —	$ 1,292
Interest on Long-term Debt (b)	1,185	63	117	108	897
Operating Leases (c)	39	15	13	5	6
Coal and Natural Gas Purchase Obligations (f)	839	252	403	154	30
Unconditional Power Purchase Obligations (g)	411	20	37	38	316
Construction Obligations (h)	256	185	62	9	—
Pension Benefit Plan Obligations (e)	54	54	—	—	—
Other Obligations	149	47	59	26	17
Total Contractual Cash Obligations	$ 4,657	$ 734	$ 1,025	$ 340	$ 2,558
KU					
Long-term Debt (a)	$ 2,351	$ —	$ 596	$ —	$ 1,755
Interest on Long-term Debt (b)	1,719	93	186	153	1,287
Operating Leases (c)	41	10	14	9	8
Coal and Natural Gas Purchase Obligations (f)	1,115	330	527	221	37
Unconditional Power Purchase Obligations (g)	182	9	16	16	141
Construction Obligations (h)	218	101	80	37	—
Pension Benefit Plan Obligations (e)	46	46	—	—	—

	Total	2018	2019 - 2020	2021 - 2022	After 2022
Other Obligations	187	49	64	38	36
Total Contractual Cash Obligations	$ 5,859	$ 638	$ 1,483	$ 474	$ 3,264

(a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
(c) See Note 9 to the Financial Statements for additional information.
(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.
(e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2018 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
(f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
(g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
(h) Represents construction commitments, including commitments for LG&E's and KU's Trimble County landfill construction and CCR Rule Closure and Process Water Program along with LG&E's Mill Creek Gypsum Dewatering and Cane Run plant demolition, which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2017, PPL declared its quarterly common stock dividend, payable January 2, 2018, at 39.5 cents per share (equivalent to $1.58 per annum). On February 22, 2018, PPL announced that the company is increasing its common stock dividend to 41.0 cents per share on a quarterly basis (equivalent to 1.64 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors.

See Note 8 to the Financial Statements 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.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2017, no interest payments were deferred.

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

From time to time, as determined by their respective Board of Directors, the Registrants pay dividends or distributions, as applicable, to their respective shareholders or members. Certain of the credit facilities of PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends or distributions.

(All Registrants)

See Note 7 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities in open market or privately negotiated transactions, in exchange transactions or otherwise, depending upon prevailing market conditions, available cash and other factors, and may be commenced or suspended at any time. The amounts involved may be material.

Rating Agency Actions

Moody's and S&P periodically review the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2017.

	Senior Unsecured		Senior Secured		Commercial Paper	
Issuer	**Moody's**	**S&P**	**Moody's**	**S&P**	**Moody's**	**S&P**
PPL						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
WPD plc	Baa3	BBB+				
WPD (East Midlands)	Baa1	A-				
WPD (West Midlands)	Baa1	A-				
WPD (South Wales)	Baa1	A-				
WPD (South West)	Baa1	A-				
PPL and PPL Electric						
PPL Electric			A1	A	P-2	A-2
PPL and LKE						
LKE	Baa1	BBB+				
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

The rating agencies have taken the following actions related to the Registrants and their subsidiaries.

(PPL)

In March 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £50 million 0.01% Index-linked Senior Notes due 2029.

In September 2017, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's $500 million 4.00% Senior Notes due 2047.

In September 2017, S&P affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In November 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South West)'s £250 million 2.375% Senior Notes due 2029.

(PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's $650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's $475 million 3.95% First Mortgage Bonds due 2047.

In August 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for LCIDA's $116 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016A due 2029 and LCIDA's $108 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016B due 2027, each previously issued on behalf of PPL Electric.

In September 2017, S&P affirmed its ratings with a stable outlook for PPL Electric.

(LKE)

In September 2017, S&P affirmed its ratings with a stable outlook for LKE.

(LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's $128 million 1.5% Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's $60 million 3.75% Environmental Facilities Revenue Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033, issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's $31 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's $35 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In September 2017, S&P affirmed its ratings with a stable outlook for LG&E.

(KU)

In July 2017, Moody's affirmed its rating of Aa2 and in August 2017, S&P confirmed its rating of AA for the County of Mercer, Kentucky's $13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's $50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's $78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's $54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

In September 2017, S&P affirmed its ratings with a stable outlook for KU.

In January 2018, S&P affirmed its rating of AA for the County of Mercer, Kentucky's $13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's $50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's $78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's $54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £4.7 billion (approximately $6.4 billion) nominal value at December 31, 2017.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2017.

Guarantees for Subsidiaries *(PPL)*

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 13 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements *(All Registrants)*

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 13 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 16, and 17 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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

Interest Rate Risk

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

The following interest rate hedges were outstanding at December 31.

	2017				2016		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
PPL							
Cash flow hedges							
Cross-currency swaps (c)	$ 702	$ 103	$ (84)	2028	$ 802	$ 191	$ (90)
Economic hedges							
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)
LKE							
Economic hedges							
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)
LG&E							
Economic hedges							
Interest rate swaps (d)	147	(27)	(1)	2033	147	(32)	(2)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.
(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.
(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2017 and 2016 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2017	2016
PPL	$ 620	$ 590
PPL Electric	162	138
LKE	168	182
LG&E	62	66
KU	92	100

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at December 31.

	2017				2016		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Economic hedges (b)	£ 2,563	$ 15	$ (323)	2020	£ 1,909	$ 184	$ (215)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To economically hedge the translation of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

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

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

Defined Benefit Plans - Equity Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of equity securities price risk on plan assets.

Credit Risk

(All Registrants)

Credit risk is the risk that the Registrants would incur a loss as a result of nonperformance by counterparties of their contractual obligations. The Registrants maintain credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, the Registrants, as applicable, have concentrations of suppliers and customers among electric utilities, financial institutions and energy marketing and trading companies. These concentrations may impact the Registrants' overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

(PPL and PPL Electric)

In January 2017, the PUC issued a Final Order approving PPL Electric's PLR procurement plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply semi-annually in April and October. To date, PPL Electric has conducted two of its planned eight competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2017, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Note 17 to the Financial Statements for additional information on credit risk.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2017, changes in this exchange rate resulted in a foreign currency translation gain of $537 million, which primarily reflected a $935 million increase to PP&E and $198 million increase to goodwill partially offset by a $549 million increase to long-term debt and an increase of $47 million to other net liabilities. In 2016, changes in this exchange rate resulted in a foreign currency translation loss of $1.1 billion, which primarily reflected a $2.1 billion decrease to PP&E and $490 million decrease to goodwill partially offset by a $1.3 billion decrease to long-term debt and a decrease of $208 million to other net liabilities. In 2015, changes in this exchange rate resulted in a foreign currency translation loss of $240 million, which primarily reflected a $472 million decrease to PP&E and $117 million decrease to goodwill partially offset by a $285 million decrease to long-term debt and a decrease of $64 million to other net liabilities.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements for information on the more significant activities.

(PPL)

See Note 8 to the Financial Statements for information on the spinoff of PPL Energy Supply.

(All Registrants)

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 13 to the Financial Statements for a discussion of the more significant environmental matters including: Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2018 through 2022. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

Sustainability

Increasing attention has been focused on a broad range of corporate activities under the heading of "sustainability", which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer's business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities Exchange Act of 1934, as amended (the "'34 Act"), or that issuers voluntarily include certain sustainability disclosure in their '34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

As has been PPL's practice, to the extent sustainability issues have or may have a material impact on the Registrants' financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report and post that report on its corporate website at www.pplweb.com and on www.pplsustainability.com. Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories, together with recent efforts by the Edison Electric Institute to provide guidance as to the appropriate subset of sustainability information that can be applied consistently across the electric utility industry.

Cybersecurity

See "Cybersecurity Management" in "Business" for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

Competition

See "Competition" under each of PPL's reportable segments in "Business - General - Segment Information" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Note 21 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application, and the estimates and assumptions regarding them.

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in, as applicable, certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the Registrants' employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Notes 6 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors by Registrant and whether a Registrant or its subsidiaries sponsor (S) or participate in and receives allocations (P) from those plans is shown in the table below.

Plan Sponsor	PPL	PPL Electric	LKE	LG&E	KU
PPL Services	S	P			
WPD (a)	S				
LKE			S	P	P
LG&E				S	

(a) Does not sponsor or participate in other postretirement benefits plans.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets based on estimated results. Any differences between actual and estimated results are recorded in AOCI, or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In addition to the economic assumptions above that are evaluated annually, Management must also make assumptions regarding the life expectancy of employees covered under their defined benefit pension and other postretirement benefit plans.

- U.S. - at December 31, 2014, the plan sponsors adopted the mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, at December 31, 2017, the plan sponsors updated the basis for estimating projected mortality improvements and selected the MP-2017 improvement scale for all U.S. defined benefit pension and other postretirement benefit plans. This new mortality assumption reflects the expectation of lower ongoing improvements in life expectancies.

- U.K. - at March 31 2016, the U.K. plan sponsors adopted the new mortality assumptions based on the "SAPS S2 All" tables issued by the Self-Administered Pensions Schemes' (SAPS) study for all U.K. defined benefit pension plans. In addition, the U.K. plan sponsors updated the basis for estimating projected mortality improvements and selected the CMI 2015 Core Projections model published by the Continuous Mortality Investigation study with a long-term future improvement rate of 1% for all U.K. defined benefit pension plans. These new mortality assumptions reflect the impact of the most recently available actual scheme mortality data (which has been higher than previously expected) on both current life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in a decrease to U.K. defined benefit pension obligations, a decrease to future expense and an increase to funded status.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Historically, WPD used the single weighted-average discount rate derived from the spot rates used to discount the benefit obligation. Concurrent with the annual remeasurement of plan assets and obligations at December 31, 2015, WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost.

An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions selected for discount rate, expected return on plan assets and rate of compensation increase at December 31 used to measure current year obligations and subsequent year net periodic defined benefit costs under GAAP, as applicable.

Assumption / Registrant	2017	2016
Discount rate		
Pension - PPL (U.S.)	3.70%	4.21%
Pension - PPL (U.K.) Obligations	2.65%	2.87%
Pension - PPL (U.K.) Service Cost (a)	2.73%	2.99%
Pension - PPL (U.K.) Interest Cost (a)	2.31%	2.41%
Pension - LKE	3.69%	4.19%
Pension - LG&E	3.65%	4.13%
Other Postretirement - PPL	3.64%	4.11%
Other Postretirement - LKE	3.65%	4.12%
Expected return on plan assets		
Pension - PPL (U.S.)	7.25%	7.00%
Pension - PPL (U.K.)	7.23%	7.22%
Pension - LKE	7.25%	7.00%
Pension - LG&E	7.25%	7.00%
Other Postretirement - PPL	6.40%	6.21%
Other Postretirement - LKE	7.15%	6.82%
Rate of compensation increase		
Pension - PPL (U.S.)	3.78%	3.95%
Pension - PPL (U.K.)	3.50%	3.50%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.75%	3.92%
Other Postretirement - LKE	3.50%	3.50%

(a) WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 to the Financial Statements for additional details.

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2017, the health care cost trend rate for all plans was 6.6% for 2018, gradually declining to an ultimate trend rate of 5.0% in 2022.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2017, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Balance Sheet:					
Regulatory assets (a)	$ 880	$ 504	$ 376	$ 234	$ 142
Regulatory liabilities	27		27		27
Pension assets	284				
Pension liabilities	813	246	369	45	36
Other postretirement and postemployment benefit liabilities	184	62	107	74	32
AOCI (pre-tax)	3,144		150		
Statement of Income:					
Defined benefits expense	$ (87)	$ 12	$ 33	$ 11	$ 5
Increase (decrease) from prior year	(52)	1	3	—	(2)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. At December 31, 2017, the balances were $33 million for PPL and LKE, $18 million for LG&E and $15 million for KU. See Note 6 to the Financial Statements for additional information.

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The tables reflect either an increase or decrease in each assumption. The inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

Actuarial assumption	
Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25 %
Health Care Cost Trend Rate (a)	1 %

(a) Only impacts other postretirement benefits.

Actuarial assumption	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL				
Discount rates	$ 520	$ 416	$ 104	$ 43
Expected return on plan assets	n/a	n/a	n/a	27
Rate of compensation increase	72	60	12	9
Health care cost trend rate (a)	4	—	4	—
PPL Electric				
Discount rates	64	—	64	4
Expected return on plan assets	n/a	—	n/a	4
Rate of compensation increase	8	—	8	1
Health care cost trend rate (a)	1	—	1	—
LKE				
Discount rates	68	28	40	8
Expected return on plan assets	n/a	n/a	n/a	3
Rate of compensation increase	10	5	5	2
Health care cost trend rate (a)	3	—	3	—
LG&E				
Discount rates	21	n/a	21	3
Expected return on plan assets	n/a	n/a	n/a	1

Actuarial assumption	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
Rate of compensation increase	2	n/a	2	—
Health care cost trend rate (a)	1	n/a	1	—
KU				
Discount rates	18	n/a	18	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	3	n/a	3	—
Health care cost trend rate (a)	2	n/a	2	—

(a) Only impacts other postretirement benefits.

Income Taxes *(All Registrants)*

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have used significant management judgment to make certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date.

At December 31, 2017, no significant changes in unrecognized tax benefits are projected over the next 12 months.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 5 to the Financial Statements for income tax disclosures, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. federal income taxes on WPD's undistributed earnings.

Regulatory Assets and Liabilities

(All Registrants)

PPL Electric, LG&E and KU, are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 6 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2017 and 2016, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. As the regulatory model is incentive-based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is primarily evaluated based on revenue recognition guidance. See Note 1 to the Financial Statements for additional information.

Price Risk Management *(PPL)*

See "Financial Condition - Risk Management" above, as well as "Price Risk Management" in Note 1 to the Financial Statements.

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

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be at the same level as its reportable segments. LKE, LG&E and KU are individually single operating and reportable segments. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL's goodwill was $3.3 billion at December 31, 2017, which consists of $2.6 billion related to the acquisition of WPD and $662 million related to the acquisition of LKE. PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill, as of October 1, 2017. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year;
- changes in planned capital expenditures;
- the consistency of forecasted free cash flows;
- earnings quality and sustainability;
- changes in market participant discount rates;
- changes in long-term growth rates;
- changes in PPL's market capitalization; and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying values. As such, the two-step quantitative impairment test was not performed.

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

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

See Note 19 to the Financial Statements for additional information on AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

At December 31, 2017, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO Recorded	Most Significant AROs		
		Amount Recorded	% of Total	Description
PPL	$ 397	$ 284	72	Ponds, landfills and natural gas mains
LKE	356	284	80	Ponds, landfills and natural gas mains
LG&E	121	89	74	Ponds, landfills and natural gas mains
KU	235	195	83	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2017, a 10% increase to retirement cost would increase these ARO liabilities by $32 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by $4 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by $2 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

Revenue Recognition - Unbilled Revenues *(LKE, LG&E and KU)*

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2017 and 2016.

Other Information *(All Registrants)*

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Parsippany, New Jersey
February 22, 2018

We have served as the Company's auditor since 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 22, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Parsippany, New Jersey
February 22, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated statements of income, comprehensive income, equity, and cash flows of PPL Corporation and subsidiaries for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of PPL Corporation and subsidiaries for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2016, expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, PPL Corporation and Subsidiaries

(Millions of Dollars, except share data)

	2017	2016	2015
Operating Revenues	**$ 7,447**	$ 7,517	$ 7,669
Operating Expenses			
Operation			
Fuel	**759**	791	863
Energy purchases	**685**	706	855
Other operation and maintenance	**1,635**	1,745	1,938
Depreciation	**1,008**	926	883
Taxes, other than income	**292**	301	299
Total Operating Expenses	**4,379**	4,469	4,838
Operating Income	**3,068**	3,048	2,831
Other Income (Expense) - net	**(255)**	390	108
Interest Expense	**901**	888	871
Income from Continuing Operations Before Income Taxes	**1,912**	2,550	2,068
Income Taxes	**784**	648	465
Income from Continuing Operations After Income Taxes	**1,128**	1,902	1,603
Loss from Discontinued Operations (net of income taxes) (Note 8)	**—**	—	(921)
Net Income	**$ 1,128**	$ 1,902	$ 682
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:			
Basic	**$ 1.64**	$ 2.80	$ 2.38
Diluted	**$ 1.64**	$ 2.79	$ 2.37
Net Income Available to PPL Common Shareowners:			
Basic	**$ 1.64**	$ 2.80	$ 1.01
Diluted	**$ 1.64**	$ 2.79	$ 1.01
Dividends Declared Per Share of Common Stock	**$ 1.58**	$ 1.52	$ 1.50
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	**685,240**	677,592	669,814
Diluted	**687,334**	680,446	672,586

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars)

	2017	2016	2015
Net income	**$ 1,128**	$ 1,902	$ 682
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of ($1), ($4), $1	**538**	(1,107)	(234)
Available-for-sale securities, net of tax of $0, $0, ($9)	**—**	—	8
Qualifying derivatives, net of tax of $19, ($18), $0	**(79)**	91	26
Defined benefit plans:			
Prior service costs, net of tax of $0, $2, $6	**—**	(3)	(9)
Net actuarial gain (loss), net of tax of $72, $40, $67	**(308)**	(61)	(366)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of $0, $0, $2	**—**	—	(2)
Qualifying derivatives, net of tax of ($18), $21, ($15)	**73**	(91)	2
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0	**1**	(1)	(1)
Defined benefit plans:			
Prior service costs, net of tax of ($1), ($1), $0	**1**	1	—
Net actuarial (gain) loss, net of tax of ($37), ($35), ($46)	**130**	121	146
Total other comprehensive income (loss)	**356**	(1,050)	(430)
Comprehensive income	**$ 1,484**	$ 852	$ 252

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars)

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 1,128	$ 1,902	$ 682
Loss from discontinued operations (net of income taxes)	—	—	921
Income from continuing operations (net of income taxes)	1,128	1,902	1,603
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by (used in) operating activities - continuing operations			
Depreciation	1,008	926	883
Amortization	97	80	59
Defined benefit plans - expense (income)	(95)	(40)	56
Deferred income taxes and investment tax credits	707	560	428
Unrealized (gains) losses on derivatives, and other hedging activities	178	19	(77)
Stock compensation expense	38	28	31
Other	(9)	(12)	(14)
Change in current assets and current liabilities			
Accounts receivable	(33)	(15)	47
Accounts payable	(10)	57	(116)
Unbilled revenues	(48)	(63)	54
Fuel, materials and supplies	40	(3)	24
Taxes payable	3	31	(175)
Regulatory assets and liabilities, net	(12)	(59)	42
Other	14	(32)	(7)
Other operating activities			
Defined benefit plans - funding	(565)	(427)	(499)
Settlement of interest rate swaps	2	(9)	(101)
Other assets	30	42	(19)
Other liabilities	(12)	(95)	53
Net cash provided by operating activities - continuing operations	2,461	2,890	2,272
Net cash provided by operating activities - discontinued operations	—	—	343
Net cash provided by operating activities	2,461	2,890	2,615
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(3,133)	(2,920)	(3,533)
Expenditures for intangible assets	(38)	(37)	(37)
Proceeds from the sale of other investments	—	2	136
Other investing activities	15	37	(5)
Net cash used in investing activities - continuing operations	(3,156)	(2,918)	(3,439)
Net cash used in investing activities - discontinued operations	—	—	(149)
Net cash used in investing activities	(3,156)	(2,918)	(3,588)
Cash Flows from Financing Activities			
Issuance of long-term debt	1,515	1,342	2,236
Retirement of long-term debt	(168)	(930)	(1,000)
Issuance of common stock	453	144	203
Payment of common stock dividends	(1,072)	(1,030)	(1,004)
Net increase in short-term debt	115	29	94
Other financing activities	(19)	6	(47)
Net cash provided by (used in) financing activities - continuing operations	824	(439)	482
Net cash used in financing activities - discontinued operations	—	—	(546)
Net cash distributions to parent from discontinued operations	—	—	132
Net cash provided by (used in) financing activities	824	(439)	68
Effect of Exchange Rates on Cash and Cash Equivalents	15	(28)	(10)
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	—	—	352
Net Increase (Decrease) in Cash and Cash Equivalents	144	(495)	(563)
Cash and Cash Equivalents at Beginning of Period	341	836	1,399
Cash and Cash Equivalents at End of Period	$ 485	$ 341	$ 836
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$ 845	$ 854	$ 822
Income taxes - net	$ 65	$ 70	$ 179
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$ 360	$ 281	$ 310
Accrued expenditures for intangible assets at December 31,	$ 68	$ 117	$ 55

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 485	$ 341
Accounts receivable (less reserve: 2017, $51; 2016, $54)		
Customer	681	666
Other	100	46
Unbilled revenues	543	480
Fuel, materials and supplies	320	356
Prepayments	66	63
Price risk management assets	49	63
Other current assets	50	52
Total Current Assets	2,294	2,067
Property, Plant and Equipment		
Regulated utility plant	38,228	34,674
Less: accumulated depreciation - regulated utility plant	6,785	6,013
Regulated utility plant, net	31,443	28,661
Non-regulated property, plant and equipment	384	413
Less: accumulated depreciation - non-regulated property, plant and equipment	110	134
Non-regulated property, plant and equipment, net	274	279
Construction work in progress	1,375	1,134
Property, Plant and Equipment, net	33,092	30,074
Other Noncurrent Assets		
Regulatory assets	1,504	1,918
Goodwill	3,258	3,060
Other intangibles	697	700
Pension benefit asset	284	9
Price risk management assets	215	336
Other noncurrent assets	135	151
Total Other Noncurrent Assets	6,093	6,174
Total Assets	$ 41,479	$ 38,315

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

		2017		2016
Liabilities and Equity				
Current Liabilities				
Short-term debt	$	**1,080**	$	923
Long-term debt due within one year		**348**		518
Accounts payable		**924**		820
Taxes		**105**		101
Interest		**282**		270
Dividends		**273**		259
Customer deposits		**292**		276
Regulatory liabilities		**95**		101
Other current liabilities		**624**		569
Total Current Liabilities		**4,023**		3,837
Long-term Debt		**19,847**		17,808
Deferred Credits and Other Noncurrent Liabilities				
Deferred income taxes		**2,462**		3,889
Investment tax credits		**129**		132
Accrued pension obligations		**800**		1,001
Asset retirement obligations		**312**		428
Regulatory liabilities		**2,704**		899
Other deferred credits and noncurrent liabilities		**441**		422
Total Deferred Credits and Other Noncurrent Liabilities		**6,848**		6,771
Commitments and Contingent Liabilities (Notes 6 and 13)				
Equity				
Common stock - $0.01 par value (a)		**7**		7
Additional paid-in capital		**10,305**		9,841
Earnings reinvested		**3,871**		3,829
Accumulated other comprehensive loss		**(3,422)**		(3,778)
Total Equity		**10,761**		9,899
Total Liabilities and Equity	$	**41,479**	$	38,315

(a) 1,560,000 shares authorized; 693,398 and 679,731 shares issued and outstanding at December 31, 2017 and December 31, 2016.

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

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

	PPL Shareowners					
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2014	665,849	$ 7	$ 9,433	$ 6,462	$ (2,274)	$ 13,628
Common stock issued	8,008		249			249
Stock-based compensation			5			5
Net income				682		682
Dividends and dividend equivalents				(1,010)		(1,010)
Distribution of PPL Energy Supply (Note 8)				(3,181)	(24)	(3,205)
Other comprehensive income (loss)					(430)	(430)
December 31, 2015	673,857	$ 7	$ 9,687	$ 2,953	$ (2,728)	$ 9,919
Common stock issued	5,874		185			185
Stock-based compensation			(31)			(31)
Net income				1,902		1,902
Dividends and dividend equivalents				(1,033)		(1,033)
Other comprehensive income (loss)					(1,050)	(1,050)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 1)				7		7
December 31, 2016	679,731	$ 7	$ 9,841	$ 3,829	$ (3,778)	$ 9,899
Common stock issued	13,667		482			482
Stock-based compensation			(18)			(18)
Net income				1,128		1,128
Dividends and dividend equivalents				(1,086)		(1,086)
Other comprehensive income (loss)					356	356
December 31, 2017	693,398	$ 7	$ 10,305	$ 3,871	$ (3,422)	$ 10,761

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

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

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

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

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(PPL)

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

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and as a result are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(PPL Electric, LG&E and KU)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

(All Registrants)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Earnings Per Share *(PPL)*

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. The accounting department provides the treasury department with guidelines on appropriate accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP-denominated earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

(All Registrants)

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	2017	2016	2015
Domestic electric and gas revenues (a)	$ 5,351	$ 5,297	$ 5,239
U.K. operating revenues (b)	2,091	2,207	2,410
Domestic - other	5	13	20
Total	$ 7,447	$ 7,517	$ 7,669

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.
(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties and adjustments for over or under-recovery from prior periods.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated primarily based on revenue recognition accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is adjusted during the price control period. The most significant of those adjustments are:

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- Annual Iteration Process (AIP) - The RIIO-ED1 price control period also includes an AIP. This will allow future base demand revenues agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.

- Correction Factor - During the current price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years when they are billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment occurred in the 2016/17 regulatory year.

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

		Additions			
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions (a)	Balance at End of Period
PPL					
2017	$ 54	$ 28	$ (1)	$ 30	$ 51
2016	41	44	—	31	54
2015	44	49	(2)	50	41
PPL Electric					
2017	$ 28	$ 18	$ —	$ 22	$ 24
2016	16	35	—	23	28
2015	17	39	—	40	16

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions (a)	Balance at End of Period
LKE					
2017	$ 24	$ 8	$ (1)	$ 6	$ 25
2016	23	8	—	7	24
2015	25	9	(2)	9	23
LG&E					
2017	$ 2	$ 2	$ (1)	$ 2	$ 1
2016	1	2	1	2	2
2015	2	2	—	3	1
KU					
2017	$ 2	$ 4	$ (1)	$ 4	$ 1
2016	2	4	—	4	2
2015	2	5	—	5	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(PPL and PPL Electric)

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

At December 31, the balances of restricted cash and cash equivalents included the following:

	PPL 2017	PPL 2016	PPL Electric 2017	PPL Electric 2016
Low carbon network fund (a)	$ 17	$ 17	$ —	$ —
Other	9	9	2	2
Total	$ 26	$ 26	$ 2	$ 2

(a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

(All Registrants)

Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.

- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

(PPL, LKE, LG&E and KU)

Cost Method Investment

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are conditionally responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. See Notes 6, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 6 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was $11 million in 2017, 2016 and 2015.

Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2017	2016	2015
PPL	2.65%	2.73%	2.57%
PPL Electric	2.86%	2.63%	2.46%
LKE	3.64%	3.69%	3.69%
LG&E	3.63%	3.58%	3.65%
KU	3.66%	3.77%	3.71%

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill as of October 1, 2017. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year;
- changes in planned capital expenditures;
- the consistency of forecasted free cash flows;
- earnings quality and sustainability;
- changes in market participant discount rates;
- changes in long-term growth rates;
- changes in PPL's market capitalization; and,
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying value. As such, the two-step quantitative impairment test was not performed and no impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 6 and Note 19 for additional information on AROs.

Compensation and Benefits

Defined Benefits *(All Registrants)*

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 6 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

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

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of $43 million ($34 million after-tax or $0.05 per share).

See Note 11 for additional information.

Stock-Based Compensation *(PPL, PPL Electric and LKE)*

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have used significant management judgment to make certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

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

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2017	2016
PPL Electric	$ 61	$ 13
LKE	(23)	1
LG&E	—	(18)
KU	—	(29)

Taxes, Other Than Income *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016	2017	2016
Fuel	$ 107	$ 158	$ 107	$ 158	$ 45	$ 60	$ 62	$ 98
Natural gas stored underground	43	42	43	42	43	42	—	—
Materials and supplies	170	156	104	97	43	41	61	56
Total	$ 320	$ 356	$ 254	$ 297	$ 131	$ 143	$ 123	$ 154

Guarantees *(All Registrants)*

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock *(PPL)*

PPL restores all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions *(PPL)*

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

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs.

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs, which is presented to reconcile segment information to PPL's consolidated results.

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 and its results are presented in "Discontinued Operations". See Note 8 for additional information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2017	2016	2015
Operating Revenues from external customers (a)			
U.K. Regulated	$ 2,091	$ 2,207	$ 2,410
Kentucky Regulated	3,156	3,141	3,115
Pennsylvania Regulated	2,195	2,156	2,124
Corporate and Other	5	13	20
Total	$ 7,447	$ 7,517	$ 7,669
Depreciation			
U.K. Regulated	$ 230	$ 233	$ 242
Kentucky Regulated	439	404	382
Pennsylvania Regulated	309	253	214
Corporate and Other	30	36	45
Total	$ 1,008	$ 926	$ 883
Amortization (b)			
U.K. Regulated	$ 34	$ 16	$ 6
Kentucky Regulated	24	29	27
Pennsylvania Regulated	33	32	26
Corporate and Other	6	3	—
Total	$ 97	$ 80	$ 59
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	$ 166	$ 13	$ (88)
Kentucky Regulated	6	6	11
Corporate and Other	6	—	—
Total	$ 178	$ 19	$ (77)
Interest Expense			
U.K. Regulated	$ 397	$ 402	$ 417
Kentucky Regulated	261	260	232
Pennsylvania Regulated	142	129	130
Corporate and Other	101	97	92
Total	$ 901	$ 888	$ 871
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	$ 804	$ 1,479	$ 1,249
Kentucky Regulated	645	640	547
Pennsylvania Regulated	575	550	416
Corporate and Other (d)	(112)	(119)	(144)
Total	$ 1,912	$ 2,550	$ 2,068
Income Taxes (e)			
U.K. Regulated	$ 152	$ 233	$ 128
Kentucky Regulated	359	242	221
Pennsylvania Regulated	216	212	164
Corporate and Other (d)	57	(39)	(48)
Total	$ 784	$ 648	$ 465
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	$ 66	$ 31	$ 45
Kentucky Regulated	294	291	236
Pennsylvania Regulated	257	221	220
Corporate and Other (d)	90	17	(73)
Total	$ 707	$ 560	$ 428
Net Income			

	2017	2016	2015
U.K. Regulated	$ 652	$ 1,246	$ 1,121
Kentucky Regulated	286	398	326
Pennsylvania Regulated	359	338	252
Corporate and Other (d)	(169)	(80)	(96)
Discontinued Operations (g)	—	—	(921)
Total	$ 1,128	$ 1,902	$ 682

(a) See Note 1 for additional information on Operating Revenues.
(b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
(c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.
(d) 2015 includes certain costs related to the spinoff of PPL Energy Supply, including deferred income tax expense, transition costs and separation benefits for PPL Services employees. See Note 8 for additional information.
(e) Represents both current and deferred income taxes, including investment tax credits. See Note 5 for additional information on the impact of the TCJA in 2017.
(f) Represents a non-cash expense item that is also included in "Income Taxes."
(g) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply and five months of Supply segment earnings. See Note 8 for additional information on these transactions.

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2017	2016	2015
Expenditures for long-lived assets			
U.K. Regulated	$ 1,015	$ 1,031	$ 1,242
Kentucky Regulated	892	791	1,210
Pennsylvania Regulated	1,254	1,134	1,107
Corporate and Other	10	1	11
Total	$ 3,171	$ 2,957	$ 3,570

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

	As of December 31,	
	2017	2016
Total Assets		
U.K. Regulated (a)	$ 16,813	$ 14,537
Kentucky Regulated	14,468	14,037
Pennsylvania Regulated	10,082	9,426
Corporate and Other (b)	116	315
Total	$ 41,479	$ 38,315

(a) Includes $12.5 billion and $10.8 billion of net PP&E as of December 31, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

Geographic data for the years ended December 31 are as follows:

	2017	2016	2015
Revenues from external customers			
U.K.	$ 2,091	$ 2,207	$ 2,410
U.S.	5,356	5,310	5,259
Total	$ 7,447	$ 7,517	$ 7,669

	As of December 31,	
	2017	2016
Long-Lived Assets		
U.K.	$ 12,851	$ 11,177
U.S.	20,936	19,595
Total	$ 33,787	$ 30,772

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

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

3. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2017, 2016 or 2015.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2017, 2016 or 2015.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2017, 2016 or 2015.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2017, 2016 or 2015.

4. Earnings Per Share

(PPL)

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

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

	2017	2016	2015
Income (Numerator)			
Income from continuing operations after income taxes	$ 1,128	$ 1,902	$ 1,603
Less amounts allocated to participating securities	2	6	6
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	$ 1,126	$ 1,896	$ 1,597
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	$ —	$ —	$ (921)
Net income	$ 1,128	$ 1,902	$ 682
Less amounts allocated to participating securities	2	6	2
Net income available to PPL common shareowners - Basic and Diluted	$ 1,126	$ 1,896	$ 680
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	685,240	677,592	669,814
Add incremental non-participating securities:			
Share-based payment awards (a)	2,094	2,854	2,772

	2017	2016	2015
Weighted-average shares - Diluted EPS	687,334	680,446	672,586

	2017	2016	2015
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 1.64	$ 2.80	$ 2.38
Income (loss) from discontinued operations (net of income taxes)	—	—	(1.37)
Net Income	$ 1.64	$ 2.80	$ 1.01
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 1.64	$ 2.79	$ 2.37
Income (loss) from discontinued operations (net of income taxes)	—	—	(1.36)
Net Income	$ 1.64	$ 2.79	$ 1.01

(a) The Treasury Stock Method was applied to non-participating share-based payment awards.

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

	2017
Stock-based compensation plans (a)	1,748
DRIP	1,552

(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 ATM Program.

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

	2017	2016	2015
Stock options	696	696	1,087
Performance units	—	176	36

5. Income and Other Taxes

(All Registrants)

Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants are:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

Under GAAP, the tax effect of changes in tax laws must be recognized in the period in which the law is enacted, or December 2017 for TCJA. The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$ 321	$ (13)	$ 112	$ —	$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

GAAP requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Registrants' deferred taxes were remeasured based upon the new U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The rate reduction on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provision, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$ 220	$ (13)	$ 112	$ —	$ —

As indicated in Note 1 - "Summary of Significant Accounting Policies - Income Taxes", PPL's U.S. regulated operations' accounting for income taxes are impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	$ 2,185	$ 1,019	$ 1,166	$ 532	$ 634

Prior to the TCJA, PPL Electric had recorded a net regulatory asset related to taxes recoverable on certain property related deferred taxes, the tax benefit of which was received by the customer. The net regulatory asset represents the future taxes owed in excess of taxes paid by the customer to date, with an additional tax gross-up. As a result of the U.S. federal corporate income tax rate reduction enacted by the TCJA, the future taxes expected to be due are now less than taxes funded through rates, resulting in a net regulatory liability.

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was $101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

SEC Guidance on Accounting for TCJA

On December 22, 2017, the SEC issued guidance for accounting for income taxes in the event that information is not available or is incomplete for purposes of reflecting the impact of the TCJA. The SEC guidance provides a period of up to one year (the measurement period) to complete the analysis and accounting to properly reflect the TCJA. The SEC guidance provides a three-step process that companies should apply to each reporting period within the measurement period:

1. A company should record the effects of the TCJA for which the accounting is complete.
2. A company should report provisional amounts (or adjustments to provisional amounts) for the effects of the TCJA for which the accounting is not complete, but for which a reasonable estimate can be determined. Provisional amounts and any

related adjustments to such provisional amounts should be recorded to income tax expense through continuing operations in the period they are identified.

3. A company should continue to apply GAAP based on the tax law in effect just prior to enactment of TCJA if a reasonable estimate of the specific effect of the TCJA cannot be made.

The measurement period ends at the earlier of the time the company finalizes its accounting for the impact of the TCJA or one year.

The Registrants have completed or made reasonable estimates of the effects of the TCJA and reflected these amounts in their December 31, 2017 financial statements. The Registrants continue to evaluate the application of the TCJA and have made certain assumptions concerning the application of various components of the law in the calculation of 2017 income tax expense. The current and deferred components of the income tax expense calculations that the Registrants consider provisional within the meaning of the SEC guidance due to uncertainty either with respect to the technical application of the law or the quantification of the impact of the law include (but are not limited to): tax depreciation, deductible executive compensation, and the accumulated foreign earnings used to calculate the deemed dividend included in PPL's taxable income in 2017 along with the impact of associated foreign tax credits and related valuation allowances. The Registrants believe that classification of these items as provisional is appropriate. The Registrants have accounted for these items based on their interpretation of the TCJA.

Further interpretive guidance on the TCJA from the IRS, Treasury, the Joint Committee on Taxation through its "Blue Book" or from Congress in the form of Technical Corrections may differ from the Registrants' interpretation of the TCJA.

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following:

	2017	2016	2015
Domestic income	$ 874	$ 1,463	$ 968
Foreign income	1,038	1,087	1,100
Total	$ 1,912	$ 2,550	$ 2,068

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Deferred investment tax credits	$ 33	$ 51
Regulatory liabilities	62	94
Income taxes due to customer (b)	499	—
Accrued pension costs	159	250
Federal loss carryforwards	356	565
State loss carryforwards	409	326
Federal and state tax credit carryforwards	455	256
Foreign capital loss carryforwards	329	302
Foreign loss carryforwards	2	3
Foreign - pensions	(32)	41
Foreign - regulatory obligations	2	6
Foreign - other	7	5
Contributions in aid of construction	134	141
Domestic - other	104	188
Unrealized losses on qualifying derivatives	10	20
Valuation allowances	(838)	(593)
Total deferred tax assets	1,691	1,655
Deferred Tax Liabilities		
Domestic plant - net (b)	3,168	4,325
Taxes recoverable through future rates (b)	—	170
Regulatory assets	211	343
Reacquired debt costs	15	25
Foreign plant - net	726	640
Domestic - other	9	14
Total deferred tax liabilities	4,129	5,517
Net deferred tax liability	$ 2,438	$ 3,862

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(b) The impact on net deferred tax liabilities as a result of the U.S. federal corporate income tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, $24 million and $27 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2017 and 2016.

At December 31, 2017, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses (a)	$ 1,662	$ 349	$ —	2029-2037
Federal charitable contributions (a)	36	7	—	2020-2022
State net operating losses (a)	5,512	407	(348)	2018-2037
State charitable contributions (a)	26	2	—	2018-2022
Foreign net operating losses	10	2	—	Indefinite
Foreign capital losses	1,938	329	(329)	Indefinite
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit (b)		30	—	Indefinite
Federal foreign tax credits (c)		267	(148)	2024-2027
Federal - other		24	(8)	2019-2037
State - other		1	—	Indefinite

(a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.
(b) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.
(c) Includes $62 million of foreign tax credits carried forward from 2016 and $205 million of additional foreign tax credits in 2017 related to the taxable deemed dividend associated with the TCJA.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other	Deductions	Balance at End of Period
2017	$ 593	$ 256 (a)	$ —	$ 11	$ 838
2016	662	17	2	88 (b)	593
2015	622	24	77 (c)	61 (b)	662

(a) Increase in valuation allowance of approximately $145 million related to expected future utilization of both 2017 foreign tax credits and pre-2017 foreign tax credits carried forward. For additional information, see the "Reconciliation of Income Tax Expense" and associated notes below.

In addition, the reduction of the U.S. federal corporate income tax rate enacted by the TCJA in 2017 resulted in a $62 million increase in federal deferred tax assets and a corresponding valuation allowance related to the federal tax benefits of state net operating losses.
(b) The reductions of the U.K. statutory income tax rates in 2016 and 2015 resulted in $19 million and $44 million in reductions in the deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts 2016 and 2015. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately $65 million due to the effect of foreign currency exchange rates.
(c) Valuation allowance related to the deferred tax assets previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

PPL Global does not record U.S. income taxes on the unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year's earnings of the WPD group. As noted above, the TCJA includes a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend from the U.K. The total amount of the taxable deemed dividend was approximately $462 million, including $205 million of foreign tax credits. The U.S. tax consequences of the deemed dividend have been recorded in PPL's 2017 tax provision and are explained below. Despite this 2017 deemed dividend, there have been no material changes to the facts underlying PPL's assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2017 was $6.0 billion. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	$ 6	$ (14)	$ (26)
Current - State	25	21	25
Current - Foreign	45	80	89
Total Current Expense	76	87	88
Deferred - Federal (a)	532	385	699
Deferred - State	88	89	68
Deferred - Foreign	133	86	41
Total Deferred Expense, excluding operating loss carryforwards	753	560	808
Amortization of investment tax credit	(3)	(3)	(4)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (b)	(16)	25	(396)

	2017	2016	2015
Income Tax Expense (Benefit)			
Deferred - State	(26)	(21)	(31)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(42)	4	(427)
Total income taxes from continuing operations	$ 784	$ 648	$ 465
Total income tax expense - Federal	$ 519	$ 393	$ 273
Total income tax expense - State	87	89	62
Total income tax expense - Foreign	178	166	130
Total income taxes from continuing operations	$ 784	$ 648	$ 465

(a) Due to the enactment of the TCJA in 2017, PPL recorded the following:
- $220 million of deferred income tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities;
- $162 million of deferred tax expense related to the utilization of current year losses resulting from the taxable deemed dividend; partially offset by,
- $60 million of deferred tax benefits related to the $205 million of 2017 foreign tax credits partially offset by $145 million of valuation allowances.

(b) Increase in federal loss carryforwards for 2015 primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to provision to return adjustments.

In the table above, the following income tax expense (benefit) are excluded from income taxes from continuing operations:

	2017	2016	2015
Discontinued operations - PPL Energy Supply Segment	$ —	$ —	$ (30)
Stock-based compensation recorded to Earnings Reinvested	—	(7)	—
Other comprehensive income	(34)	(6)	(2)
Valuation allowance on state deferred taxes recorded to other comprehensive income	(1)	1	(4)
Total	$ (35)	$ (12)	$ (36)

	2017	2016	2015
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 669	$ 893	$ 724
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	46	46	31
Valuation allowance adjustments (a)	36	16	24
Impact of lower U.K. income tax rates (b)	(176)	(177)	(176)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	47	(42)	8
Federal and state tax reserves adjustments (d)	—	—	(22)
Foreign income return adjustments	(8)	2	—
Impact of the U.K. Finance Acts on deferred tax balances (b)	(16)	(49)	(91)
Depreciation not normalized	(10)	(10)	(5)
Interest benefit on U.K. financing entities	(16)	(17)	(20)
Stock-based compensation (e)	(3)	(10)	—
Deferred tax impact of U.S. tax reform (f)	220	—	—
Other	(5)	(4)	(8)
Total increase (decrease)	115	(245)	(259)
Total income taxes from continuing operations	$ 784	$ 648	$ 465
Effective income tax rate	41.0%	25.4%	22.5%

(a) During 2017, PPL recorded an increase in valuation allowances of $23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2017 and 2016, PPL recorded deferred income tax expense of $16 million and $13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded $24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of $12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and $12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.

(b) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a $42 million deferred income tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a $90 million deferred income tax benefit during 2015, related to both rate decreases.

(c) During 2017, PPL recorded a federal income tax benefit of $35 million primarily attributable to U.K. pension contributions.

During 2017, PPL recorded deferred income tax expense of $83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million, including $205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only $83 million of the $205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of $122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of $205 million offset by a valuation allowance of $122 million.

During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

(d) During 2015, PPL recorded a $9 million income tax benefit related to a planned amendment of a prior period tax return and a $12 million income tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

(e) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

(f) During 2017, PPL recorded deferred income tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
State gross receipts (a)	$ 102	$ 100	$ 89
State capital stock	(6)	—	—
Foreign property	127	135	148
Domestic Other	69	66	62
Total	$ 292	$ 301	$ 299

(a) In 2015, the settlement of a 2011 gross receipts tax audit resulted in the reversal of $17 million of previously recognized reserves.

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Accrued pension costs	$ 63	$ 107
Contributions in aid of construction	117	112
Regulatory liabilities	25	34
Income taxes due to customers (b)	193	—
State loss carryforwards	19	22
Federal loss carryforwards	91	147
Other	45	81
Total deferred tax assets	553	503
Deferred Tax Liabilities		
Electric utility plant - net (b)	1,544	2,001
Taxes recoverable through future rates (b)	—	141
Reacquired debt costs	8	15
Regulatory assets	150	240
Other	5	5
Total deferred tax liabilities	1,707	2,402
Net deferred tax liability	$ 1,154	$ 1,899

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

At December 31, 2017, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards (a)			
Federal net operating losses	$ 426	$ 89	2031-2037
Federal charitable contributions	8	2	2020-2022
State net operating losses	233	18	2030-2032
State charitable contributions	13	1	2018-2022

(a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.

Credit carryforwards were insignificant at December 31, 2017.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	$ (65)	$ (29)	$ (80)
Current - State	20	19	23
Total Current Expense (Benefit)	(45)	(10)	(57)
Deferred - Federal (a)	234	193	287
Deferred - State	29	29	12
Total Deferred Expense, excluding operating loss carryforwards	263	222	299
Amortization of investment tax credit	—	—	—
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(5)	—	(75)
Deferred - State	—	—	(3)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(5)	—	(78)
Total income tax expense	$ 213	$ 212	$ 164
Total income tax expense - Federal	$ 164	$ 164	$ 132
Total income tax expense - State	49	48	32
Total income tax expense	$ 213	$ 212	$ 164

(a) Due to the enactment of the TCJA in 2017, PPL Electric recorded a $13 million deferred tax benefit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 201	$ 193	$ 146
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	36	36	25
Depreciation not normalized	(8)	(8)	(4)
Stock-based compensation (a)	(2)	(6)	—
Deferred tax impact of U.S. tax reform (b)	(13)	—	—
Other	(1)	(3)	(3)
Total increase (decrease)	12	19	18
Total income tax expense	$ 213	$ 212	$ 164
Effective income tax rate	37.0%	38.4%	39.4%

(a) During 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.
(b) During 2017, PPL Electric recorded a deferred tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
State gross receipts (a)	$ 102	$ 100	$ 89
Property and other	5	5	5
Total	$ 107	$ 105	$ 94

(a) In 2015, the settlement of a 2011 gross receipts tax audit resulted in the reversal of $17 million of previously recognized reserves.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	$ 150	$ 248
State loss carryforwards	41	35
Federal tax credit carryforwards	181	186
Contributions in aid of construction	17	29
Regulatory liabilities	37	60
Accrued pension costs	29	58
Income taxes due to customers (b)	305	15
Deferred investment tax credits	33	51
Derivative liability	7	12
Other	26	49
Valuation allowances	(8)	(11)
Total deferred tax assets	818	732
Deferred Tax Liabilities		
Plant - net (b)	1,615	2,352
Regulatory assets	61	102
Other	8	13
Total deferred tax liabilities	1,684	2,467
Net deferred tax liability	$ 866	$ 1,735

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

At December 31, 2017, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards (a)				
Federal net operating losses	$ 713	$ 150	$ —	2028-2037
Federal charitable contributions	14	3	—	2020-2022
State net operating losses	874	41	—	2028-2037

Credit carryforwards			
Federal investment tax credit	133	—	2025-2036
Federal alternative minimum tax credit (b)	27	—	Indefinite
Federal - other	21	(8)	2019-2037
State - other	1	—	Indefinite

(a) Due to the enactment of the TCJA, deferred tax assets are reflected at the new U.S. federal corporate income tax rate of 21%.
(b) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2017	$ 11	$ 4 (a)	$ 7 (b)	$ 8
2016	12	—	1 (b)	11
2015	—	12 (c)	—	12

(a) Federal tax credits expiring in 2021 that are more likely than not to expire before being utilized.
(b) Federal tax credit expiring.
(c) Federal tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	$ 74	$ (36)	$ 2
Current - State	6	1	1
Total Current Expense (Benefit)	80	(35)	3
Deferred - Federal (a)	268	248	405
Deferred - State	32	38	32
Total Deferred Expense, excluding benefits of operating loss carryforwards	300	286	437
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(2)	10	(198)
Deferred - State	—	(1)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(2)	9	(198)
Total income tax expense from continuing operations (b)	$ 375	$ 257	$ 239
Total income tax expense - Federal	$ 337	$ 219	$ 206
Total income tax expense - State	38	38	33
Total income tax expense from continuing operations (b)	$ 375	$ 257	$ 239

(a) Due to the enactment of the TCJA in 2017, LKE recorded $112 million of deferred income tax expense, of which $108 million related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities and $4 million related to valuation allowances on tax credits expiring in 2021.
(b) Excludes deferred federal and state tax expense (benefit) recorded to OCI of $(10) million in 2017, $(16) million in 2016 and less than $(1) million in 2015.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 242	$ 240	$ 211
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	25	25	22
Amortization of investment tax credit	(3)	(3)	(3)
Valuation allowance adjustment (a)	—	—	12
Stock-based compensation (b)	1	(3)	—
Deferred tax impact of U.S. tax reform (c)	112	—	—
Other	(2)	(2)	(3)
Total increase	133	17	28
Total income tax expense	$ 375	$ 257	$ 239
Effective income tax rate	54.3%	37.5%	39.6%

(a) Represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
(b) During 2016, LKE recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.
(c) During 2017, LKE recorded deferred income tax expense primarily due to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2017	2016	2015
Taxes, other than income			
Property and other	$ 65	$ 62	$ 57
Total	$ 65	$ 62	$ 57

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.
Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	$ 29	$ 80
Contributions in aid of construction	11	18
Regulatory liabilities	21	34
Deferred investment tax credits	9	14
Income taxes due to customers (b)	142	17
Derivative liability	7	12
Other	12	17
Total deferred tax assets	231	192
Deferred Tax Liabilities		
Plant - net (b)	724	1,058
Regulatory assets	40	65
Accrued pension costs	34	35
Other	5	8
Total deferred tax liabilities	803	1,166
Net deferred tax liability	$ 572	$ 974

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2017, LG&E had $140 million of federal net operating loss carryforwards that expire in 2035 and $6 million of federal credit carryforwards that expire from 2034 to 2037.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	$ —	$ (22)	$ (15)
Current - State	5	1	3
Total current Expense (Benefit)	5	(21)	(12)
Deferred - Federal	112	134	190
Deferred - State	14	18	13
Total Deferred Expense, excluding benefits of operating loss carryforwards	126	152	203
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Tax benefit of operating loss carryforwards			
Deferred - Federal	1	(4)	(76)
Total Tax Benefit of Operating Loss Carryforwards	1	(4)	(76)
Total income tax expense	$ 131	$ 126	$ 114
Total income tax expense - Federal	$ 112	$ 107	$ 98
Total income tax expense - State	19	19	16
Total income tax expense	$ 131	$ 126	$ 114

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 120	$ 115	$ 105
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	13	12	11
Amortization of investment tax credit	(1)	(1)	(1)
Other	(1)	—	(1)
Total increase	11	11	9
Total income tax expense	$ 131	$ 126	$ 114
Effective income tax rate	38.1%	38.3%	38.1%

	2017	2016	2015
Taxes, other than income			
Property and other	$ 33	$ 32	$ 28
Total	$ 33	$ 32	$ 28

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2017 (a)	2016
Deferred Tax Assets		
Federal loss carryforwards	$ 13	$ 79
Contributions in aid of construction	6	11
Regulatory liabilities	16	26
Deferred investment tax credits	24	37
Income taxes due to customers (b)	163	—
Other	9	11

	2017 (a)		2016
Total deferred tax assets	231		164
Deferred Tax Liabilities			
Plant - net (b)	882		1,280
Regulatory assets	21		37
Accrued pension costs	17		12
Other	2		5
Total deferred tax liabilities	922		1,334
Net deferred tax liability	$ 691	$	1,170

(a) Deferred tax assets and liabilities at December 31, 2017 reflect the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
(b) The impact on net deferred tax liabilities as a result of the U.S. federal tax rate reduction enacted by the TCJA is primarily related to plant (net of net operating losses) and resulted in a regulatory liability for income taxes due to customers, the deferred tax impact of which is reflected as a deferred tax asset.

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2017, KU had $61 million of federal net operating loss carryforwards that expire in 2035 and $6 million of federal credit carryforwards that expire from 2034 to 2037.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2017	2016	2015
Income Tax Expense (Benefit)			
Current - Federal	$ —	$ 31	$ (21)
Current - State	7	5	1
Total Current Expense (Benefit)	7	36	(20)
Deferred - Federal	138	131	240
Deferred - State	16	19	19
Total Deferred Expense, excluding benefits of operating loss carryforwards	154	150	259
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	(21)	(97)
Total Tax Benefit of Operating Loss Carryforwards	—	(21)	(97)
Total income tax expense (a)	$ 159	$ 163	$ 140
Total income tax expense - Federal	$ 136	$ 139	$ 120
Total income tax expense - State	23	24	20
Total income tax expense (a)	$ 159	$ 163	$ 140

(a) Excludes deferred federal and state tax expense (benefit) recorded to OCI of less than $1 million in 2017, and less than $(1) million in 2016 and 2015.

	2017	2016	2015
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 146	$ 150	$ 131
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	15	16	13
Amortization of investment tax credit	(2)	(2)	(2)
Other	—	(1)	(2)
Total increase	13	13	9
Total income tax expense	$ 159	$ 163	$ 140
Effective income tax rate	38.0%	38.1%	37.4%

	2017	2016	2015
Taxes, other than income			
Property and other	$ 32	$ 30	$ 29
Total	$ 32	$ 30	$ 29

Unrecognized Tax Benefits *(All Registrants)*

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2017, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2013 and prior	2013 and prior	2013 and prior	2013 and prior	2013 and prior
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2012 and prior		2012 and prior	2012 and prior	2012 and prior
U.K. (foreign)	2014 and prior				

Other *(PPL)*

In 2015, PPL recorded a tax benefit of $24 million, related to the settlement of the IRS audit for tax years 1998-2011. Of this amount, $12 million is reflected in continuing operations. PPL finalized the settlement of interest in 2016 and recorded an additional $3 million tax benefit.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

(PPL)

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of power purchases. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates. Therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except regulatory assets recorded for AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31,:

	PPL		PPL Electric	
	2017	2016	2017	2016
Current Regulatory Assets:				
Environmental cost recovery	$ 5	$ 6	$ —	$ —
Generation formula rate	6	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	4	3	—	—
Smart meter rider	15	6	15	6
Storm costs	—	5	—	5
Other	4	1	1	1
Total current regulatory assets (a)	$ 34	$ 39	$ 16	$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 880	$ 947	$ 504	$ 549
Taxes recoverable through future rates	3	340	3	340
Storm costs	33	57	—	9
Unamortized loss on debt	54	61	29	36
Interest rate swaps	26	31	—	—
Terminated interest rate swaps	92	98	—	—
Accumulated cost of removal of utility plant	173	159	173	159
AROs	234	211	—	—
Other	9	14	—	1
Total noncurrent regulatory assets	$ 1,504	$ 1,918	$ 709	$ 1,094
Current Regulatory Liabilities:				
Generation supply charge	$ 34	$ 23	$ 34	$ 23
Transmission service charge	9	—	9	—
Universal service rider	26	14	26	14
Transmission formula rate	9	15	9	15
Fuel adjustment clauses	3	11	—	—
Act 129 compliance rider	—	17	—	17

	PPL 2017	PPL 2016	PPL Electric 2017	PPL Electric 2016
Storm damage expense rider	8	13	8	13
Other	6	8	—	1
Total current regulatory liabilities	$ 95	$ 101	$ 86	$ 83
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 677	$ 700	$ —	$ —
Power purchase agreement - OVEC (b)	68	75	—	—
Net deferred taxes (c)	1,853	23	668	—
Defined benefit plans	27	23	—	—
Terminated interest rate swaps	74	78	—	—
Other	5	—	—	—
Total noncurrent regulatory liabilities	$ 2,704	$ 899	$ 668	$ —

	LKE 2017	LKE 2016	LG&E 2017	LG&E 2016	KU 2017	KU 2016
Current Regulatory Assets:						
Environmental cost recovery	$ 5	$ 6	$ 5	$ 6	$ —	$ —
Generation formula rate	6	11	—	—	6	11
Gas supply clause	4	3	4	3	—	—
Other	3	—	3	—	—	—
Total current regulatory assets	$ 18	$ 20	$ 12	$ 9	$ 6	$ 11
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 376	$ 398	$ 234	$ 246	$ 142	$ 152
Storm costs	33	48	18	26	15	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	26	31	26	31	—	—
Terminated interest rate swaps	92	98	54	57	38	41
AROs	234	211	61	70	173	141
Other	9	13	2	4	7	9
Total noncurrent regulatory assets	$ 795	$ 824	$ 411	$ 450	$ 384	$ 374
Current Regulatory Liabilities:						
Demand side management	$ —	$ 3	$ —	$ 2	$ —	$ 1
Fuel adjustment clause	3	11	—	2	3	9
Gas line tracker	3	—	3	—	—	—
Other	3	4	—	1	3	3
Total current regulatory liabilities	$ 9	$ 18	$ 3	$ 5	$ 6	$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 677	$ 700	$ 282	$ 305	$ 395	$ 395
Power purchase agreement - OVEC (b)	68	75	47	52	21	23
Net deferred taxes (c)	1,185	23	552	23	633	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	5	—	1	—	4	—
Total noncurrent regulatory liabilities	$ 2,036	$ 899	$ 919	$ 419	$ 1,117	$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.
(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.
(c) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which lowered the federal corporate income tax rate effective January 1, 2018 requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured. Of the regulatory asset and liability balances recorded, costs of $68 million for PPL, $30 million for PPL Electric, $38 million for LKE, $26 million for LG&E and $12 million for KU, are expected to be amortized into net periodic defined benefit costs in 2018 in accordance with PPL's, PPL Electric's, LKE's, LG&E's and KU's pension accounting policy.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2017, the balances were $33 million for PPL and LKE, $18 million for LG&E and $15 million for KU. As of December 31, 2016, the balances were $20 million for PPL and LKE, $11 million for LG&E and $9 million for KU. Of the costs expected to be amortized into net periodic defined benefit costs in 2018, $16 million for PPL and LKE, $10 million for LG&E and $6 million for KU, are expected to be recorded as a regulatory asset in 2018.

(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's, LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2020.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for PPL, LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

Regulatory Liability Associated with Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits. At December 31, 2017, excess deferred taxes recorded as a result of the TCJA were $2.2 billion at PPL, $1.0 billion at PPL Electric, $1.2 billion at LKE, $532 million at LG&E and $634 million at KU, which include the gross-up associated with the excess deferred taxes.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at $15 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than $15 million recovered annually through base rates. Beginning January 1, 2018, the amortized 2011 storm expense of $5 million will be included in the base rate component of the SDER.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allowed PPL Electric to recover the maximum $250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allowed PPL Electric to recover the maximum $185 million cost of the program over the three year period June 1, 2013 through May 31, 2016. Phase III of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum $313 million over the next five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The Phase II program costs were reconciled at the end of the program and any remaining over- or under-recovery was rolled into Phase III. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Smart Meter Rider (SMR)

Act 129, which became effective November 14, 2008, requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). PPL Electric filed its initial SMP in 2009. However, in 2010, the PUC found that PPL Electric's "Advanced Metering Infrastructure" (AMI) system did not fully meet the standards of Act 129. In 2014, PPL Electric filed its current SMP, which was approved by the PUC in 2015. Under its SMP, PPL Electric will replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. PPL Electric uses a mechanism known as the Smart Meter Rider (SMR) to recover the costs to implement its SMP on a full and current basis. The SMR is a reconciliation mechanism whereby any over-or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2017, the KPSC issued orders continuing the use of an authorized return on equity of 9.7% for all existing approved ECR plans and projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs, intended to reduce peak demand and delay investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision, which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs and incentives, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management and demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

A net cash settlement of $9 million was paid on a swap that was terminated by LG&E in December 2016. The KPSC authorized the recording of a regulatory asset and the recovery of such costs. As part of the Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017, the KPSC authorized LG&E to recover the swap termination payment through amortization of the regulatory asset using a straight-line method over 17 years. The amortization of the regulatory asset is recognized in "Interest Expense" on the Statements of Income.

Plant Outage Costs

The Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017 provided for the normalization of expenses associated with plant outages using an eight-year average. The eight-year average is comprised of four historical years' and four forecasted years' expenses. Plant outage expenses that are greater or less than the eight-year average will be collected from or returned to customers, through future base rates. These amounts are included in other current regulatory assets or other current regulatory liabilities above.

(PPL, LKE and LG&E)

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, the KPSC approved additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. Effective July 1, 2017, LG&E is authorized to earn a 9.7% return on equity for the GLT mechanism. As part of the 2016 rate case, LG&E now annually files a combined application which includes revised rates based on projected costs and a balancing adjustment calculation with rates effective on the first billing cycle in May. After the completion of a plan year, the balancing adjustment, as part of the combined application filing to the KPSC, amends rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

(PPL, LKE and KU)

Generation Formula Rates

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect in July of each year utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset represents the difference between the revenue requirement in effect for the preceding year and actual expenditures incurred for the current year.

Regulatory Matters

(PPL)

U.K. Activities

RIIO-ED1

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs.

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

In April and May 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with LG&E base electricity rates of $59 million, LG&E base gas rates of $8 million and KU base electricity rates of $55 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

In June 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. The orders modified the stipulations to provide for increases in annual revenue requirements associated with LG&E base electricity rates of $57 million, LG&E base gas rates of $7 million, KU base electricity rates of $52 million and incorporated an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that resulted in higher depreciation of approximately $15 million ($4 million for LG&E and $11 million for KU) in 2017, exclusive of net additions to PP&E. The orders resulted in base electricity and gas rate increases of 5.2% and 2.1% at LG&E and a base electricity rate increase of 3.2% at KU. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The annual impact of the new authorized return for ECR projects is not expected to be significant.

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval for implementing Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of $155 million and $104 million for KU and LG&E electric service and $62 million for LG&E gas service. The full Advanced Metering Systems deployment will also result in incremental operation and maintenance costs during the deployment phase of $17 million and $11 million for KU and LG&E electric service and $3 million for LG&E gas service.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On December 27, 2017, as a result of the complaint, the KPSC ordered LG&E and KU to satisfy or address the complaint and commence recording regulatory liabilities to reflect the reduction in the federal corporate tax rate to 21% and the associated savings in excess deferred taxes on an interim basis until utility rates are adjusted to reflect the federal tax savings.

On January 8, 2018, LG&E and KU responded to the complaint, denying certain claims in the complaint but concurring that the TCJA will result in savings for their customers. LG&E and KU have stated in their responses that the companies have recorded regulatory liabilities as of December 31, 2017 to reflect the reduction in the federal corporate tax rate and the associated savings in excess deferred taxes and will make changes to their ECR, DSM and LG&E's GLT rate mechanisms to begin providing the applicable savings to customers. LG&E and KU also offered to establish a new bill credit mechanism effective with the April 2018 billing cycle to begin distributing the tax savings associated with base rates to customers.

On January 29, 2018, LG&E and KU reached a settlement agreement to commence returning savings related to the TCJA to their customers. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues, $69 million in LG&E electricity revenues and $17 million in LG&E gas revenues for the period January 2018 through April 2019. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019. The settlement agreement is subject to review and approval by the KPSC. An order in the proceeding may occur during the first quarter of 2018.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate.

The FERC has not issued any guidance on the effect on rates of the TCJA.

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

(LKE and LG&E)

Gas Franchise

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

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. In September 2017, oral arguments were heard by the KPSC and a final order is expected in 2018. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

(PPL and PPL Electric)

Pennsylvania Activities

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In June 2016, the PUC approved PPL Electric's Phase III Plan, allowing PPL Electric to implement its energy efficiency and demand response programs and recover, through the Act 129 compliance rider, the $313 million cost of the programs over the five-year period June 1, 2016 through May 31, 2021.

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

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

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA. The Commission is requesting comments from interested parties addressing whether the Commission should adjust current customer rates to reflect the reduced federal income tax expense and, if so, the appropriate negative surcharge or other methodology that would permit immediate adjustment to consumer rates, and whether the surcharge or other said methodology should provide that any refunds to customers due to reduced taxes be effective as of January 1, 2018. In addition, the Secretarial Letter requests certain Pennsylvania regulated utilities, including PPL Electric, to provide certain data related to the effect of the TCJA on PPL Electric's income tax expense and rate base including whether any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates. PPL Electric's responses are due to the PUC not later than March 9, 2018.

The FERC has not issued any guidance on the effect on rates of the TCJA.

Federal Matters

FERC Formula Rate

In April 2017, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement. The filing establishes the revenue requirement used to set rates that took effect in June 2017. The time period for any challenges to PPL Electric's annual update has expired. No formal challenges were submitted.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2017, 2016 and 2015, PPL Electric purchased $1.3 billion, $1.4 billion and $1.3 billion of accounts receivable from unaffiliated third parties. During 2015, PPL Electric purchased $146 million of accounts receivable from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for 2015 included 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 unaffiliated third parties.

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 except for borrowings under LG&E's Term Loan Facility which are recorded as "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

	December 31, 2017					December 31, 2016	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
WPD plc							
Syndicated Credit Facility (a) (c)	Jan. 2022	£ 210	£ 148	£ —	£ 60	£ 160	£ —
WPD (South West)							
Syndicated Credit Facility (a) (c)	July 2021	245	—	—	245	110	—
WPD (East Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	180	—	120	9	—
WPD (West Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	120	—	180	—	—
Uncommitted Credit Facilities		100	—	4	96	60	4
Total U.K. Credit Facilities (b)		£ 1,155	£ 448	£ 4	£ 701	£ 339	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (c) (d)	Jan. 2022	$ 950	$ —	$ 230	$ 720	$ —	$ 20
Syndicated Credit Facility (c) (d)	Nov. 2018	300	—	—	300	—	—
Bilateral Credit Facility (c) (d)	Mar. 2018	150	—	18	132	—	17
Total PPL Capital Funding Credit Facilities		$ 1,400	$ —	$ 248	$ 1,152	$ —	$ 37
PPL Electric							
Syndicated Credit Facility (c) (d)	Jan. 2022	$ 650	$ —	$ 1	$ 649	$ —	$ 296
LKE							

	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
		December 31, 2017				December 31, 2016	
Syndicated Credit Facility (c) (d)	Oct. 2018	$ 75	$ —	$ —	$ 75	$ —	$ —
LG&E							
Syndicated Credit Facility (c) (d)	Jan. 2022	$ 500	$ —	$ 199	$ 301	$ —	$ 169
Term Loan Credit Facility (c) (e)	Oct. 2019	200	100	—	100	—	—
Total LG&E Credit Facilities		$ 700	$ 100	$ 199	$ 401	$ —	$ 169
KU							
Syndicated Credit Facility (c) (d)	Jan. 2022	$ 400	$ —	$ 45	$ 355	$ —	$ 16
Letter of Credit Facility (c) (d) (f)	Oct. 2020	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 243	$ 355	$ —	$ 214

(a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
(b) The WPD plc amounts borrowed at December 31, 2017 and 2016 included USD-denominated borrowings of $200 million for both periods, which bore interest at 2.17% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed. The WPD (East Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to $244 million and bore interest at 0.89%. The WPD (West Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to $162 million and bore interest at 0.89%. At December 31, 2017, the unused capacity under the U.K. credit facilities was approximately $949 million.
(c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
(d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facilities expiring in November 2018 and March 2018 be increased by up to $30 million, LG&E and KU each may request up to a $100 million increase in its facility's capacity and LKE may request up to a $25 million increase in its facility's capacity.
(e) LG&E entered into a term loan credit agreement in October 2017 whereby it may borrow up to $200 million. The outstanding borrowings at December 31, 2017 bore interest at a rate of 2.06%.
(f) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

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

In January 2018, the expiration dates for the PPL Capital Funding, PPL Electric, LG&E and KU syndicated credit facilities expiring in January 2022 were extended to January 2023.

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

	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
		December 31, 2017			December 31, 2016	
PPL Capital Funding	1.64%	$ 1,000	$ 230	$ 770	1.10%	$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.83%	350	199	151	0.94%	169
KU	1.97%	350	45	305	0.87%	16
Total		$ 2,350	$ 474	$ 1,876		$ 500

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

See Note 14 for discussion of intercompany borrowings.

Long-term Debt *(All Registrants)*

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2017	December 31, 2016
PPL				
U.S.				
Senior Unsecured Notes	3.78%	2020 - 2047	$ 4,575	$ 4,075
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.96%	2018 - 2047	7,314	6,849
Junior Subordinated Notes	5.10%	2067 - 2073	930	930
Term Loan Credit Facility	2.06%	2019	100	—
Total U.S. Long-term Debt			12,919	11,854
U.K.				
Senior Unsecured Notes (d)	5.24%	2020 - 2040	6,351	5,707
Index-linked Senior Unsecured Notes (e)	1.56%	2026 - 2056	1,012	838
Total U.K. Long-term Debt (f)			7,363	6,545
Total Long-term Debt Before Adjustments			20,282	18,399
Fair market value adjustments			21	22
Unamortized premium and (discount), net (e)			14	20
Unamortized debt issuance costs			(122)	(115)
Total Long-term Debt			20,195	18,326
Less current portion of Long-term Debt			348	518
Total Long-term Debt, noncurrent			$ 19,847	$ 17,808
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.23%	2020 - 2047	$ 3,339	$ 2,864
Total Long-term Debt Before Adjustments			3,339	2,864
Unamortized discount			(16)	(12)
Unamortized debt issuance costs			(25)	(21)
Total Long-term Debt			3,298	2,831
Less current portion of Long-term Debt			—	224
Total Long-term Debt, noncurrent			$ 3,298	$ 2,607
LKE				
Senior Unsecured Notes	3.97%	2020 - 2021	$ 725	$ 725
Term Loan Credit Facility	2.06%	2019	100	—
First Mortgage Bonds (a) (c)	3.73%	2018 - 2045	3,975	3,985
Long-term debt to affiliate	3.50%	2026	400	400
Total Long-term Debt Before Adjustments			5,200	5,110
Fair market value adjustments			—	(1)
Unamortized discount			(14)	(15)
Unamortized debt issuance costs			(27)	(29)
Total Long-term Debt			5,159	5,065
Less current portion of Long-term Debt			98	194
Total Long-term Debt, noncurrent			$ 5,061	$ 4,871
LG&E				
Term Loan Credit Facility	2.06%	2019	$ 100	$ —
First Mortgage Bonds (a) (c)	3.48%	2018 - 2045	1,624	1,634
Total Long-term Debt Before Adjustments			1,724	1,634
Fair market value adjustments			—	(1)
Unamortized discount			(4)	(4)

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2017	2016
Unamortized debt issuance costs			(11)	(12)
Total Long-term Debt			1,709	1,617
Less current portion of Long-term Debt			98	194
Total Long-term Debt, noncurrent			$ 1,611	$ 1,423
KU				
First Mortgage Bonds (a) (c)	3.91%	2019 - 2045	$ 2,351	$ 2,351
Total Long-term Debt Before Adjustments			2,351	2,351
Unamortized discount			(9)	(9)
Unamortized debt issuance costs			(14)	(15)
Total Long-term Debt			2,328	2,327
Less current portion of Long-term Debt			—	—
Total Long-term Debt, noncurrent			$ 2,328	$ 2,327

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately $8.5 billion and $7.6 billion at December 31, 2017 and 2016.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $4.7 billion and $4.4 billion at December 31, 2017 and 2016.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $6.0 billion and $5.8 billion at December 31, 2017 and 2016.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes $224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and $90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

(c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2017, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $514 million for LKE, comprised of $391 million and $123 million for LG&E and KU. At December 31, 2017, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $375 million for LKE, comprised of $147 million and $228 million for LG&E and KU. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

(d) Includes £225 million ($304 million at December 31, 2017) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

(e) The principal amount of the notes issued by WPD (South West), WPD (East Midlands) and WPD (South Wales) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2016 to 2017 was an increase of approximately £27 million ($37 million) resulting from inflation. In addition, this amount includes £225 million ($304 million at December 31, 2017) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

(f) Includes £4.7 billion ($6.4 billion at December 31, 2017) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

(g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2017.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2018 through 2022 and thereafter are as follows:

		PPL		PPL Electric		LKE		LG&E		KU
2018	$	348	$	—	$	98	$	98	$	—
2019		430		—		430		334		96
2020		1,278		100		975		—		500
2021		1,150		400		250		—		—
2022		1,274		474		—		—		—
Thereafter		15,802		2,365		3,447		1,292		1,755
Total	$	20,282	$	3,339	$	5,200	$	1,724	$	2,351

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to $64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In September 2017, PPL Capital Funding issued $500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of $490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and for general corporate purposes.

In November 2017, WPD (South West) issued £250 million of 2.375% Senior Notes due 2029. WPD (South West) received proceeds of £247 million, which equated to $326 million at the time of issuance, net of fees and a discount. The proceeds were used for general corporate purposes, including the re-financing of existing debt.

In December 2017, WPD repaid the entire $100 million principal amount of its 7.25% Senior Notes upon maturity.

(PPL and PPL Electric)

In May 2017, PPL Electric issued $475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of $466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

In August 2017, the LCIDA remarketed $108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed $116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

In June 2017, the County of Trimble, Kentucky issued $60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem $60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In October 2017, LG&E entered into a $200 million term loan credit facility with a term expiring in October 2019. As of December 31, 2017, LG&E had outstanding borrowings of $100 million under this agreement at a rate of 2.06%. In January 2018, LG&E borrowed the remaining $100 million available under this facility.

In November 2017, LG&E redeemed, at par, its $10 million Louisville/Jefferson County Metro Government Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2027.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

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. The compensation paid to the selling agents by PPL may be up to 1% of the gross offering proceeds of the shares sold with respect to each equity distribution agreement. PPL issued the following for the years ended December 31:

	2017	2016	2015
Number of shares (in thousands)	10,373	710	1,477
Net Proceeds	$ 377	$ 25	$ 49

Distributions and Related Restrictions

In November 2017, PPL declared its quarterly common stock dividend, payable January 2, 2018, at 39.5 cents per share (equivalent to $1.58 per annum). On February 22, 2018, PPL announced that the company is increasing its common stock dividend to 41.0 cents per share on a quarterly basis (equivalent to $1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

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.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2017, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2017, net assets of $2.7 billion ($1.1 billion for LG&E and $1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of $3.1 billion ($1.4 billion for LG&E and $1.7 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

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.

(PPL)

Discontinued Operations

<u>Spinoff of PPL Energy Supply</u>

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 or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

Loss on Spinoff

In June 2015, 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 quantitative 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 Talen Energy market value 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 Energy stock ownership base selling pressure, among other factors, and concluded that these factors limited 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.

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 had 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 publicly 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 prior 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 Talen Energy business planning process at that time 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 and estimated charges for employee separation benefits were recorded in 2014. In 2015, the organizational structures were finalized for both PPL and Talen Energy, which resulted in an additional charge of $10 million for employee separation benefits. Of this amount, $2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining $8 million is reflected in "Other operation and maintenance" on the 2015 PPL Consolidated Statement of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services.

Additional employee-related costs incurred primarily included 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 in 2015, which are reflected in discontinued operations.

PPL recorded $45 million of third-party costs related to this transaction in 2015. Of these costs, $32 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 in 2015, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the 2015 Statement of Income.

At the close of the transaction in 2015, $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.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminated on May 31, 2017. The TSA set forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL provided Talen Energy certain information technology, financial and accounting, human resource and other specified services. PPL billed Talen Energy $1 million, $35 million and $25 million for these services in 2017, 2016 and 2015. 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 extended through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were $106 million and $27 million for 2016 and 2015. There were no energy purchases from Talen Energy Marketing in 2017. These energy purchases are no longer considered affiliate transactions.

(PPL)

Summarized Results of Discontinued Operations

The operations of the Supply segment are included in "Loss from Discontinued Operations (net of income taxes)" on the Statement of Income. Following are the components of Discontinued Operations in the Statement of Income for the period ended December 31:

		2015
Operating revenues	$	1,427
Operating expenses		1,328
Other Income (Expense) - net		(21)
Interest expense (a)		150
Income tax expense (benefit)		(30)
Loss on spinoff		(879)
Loss from Discontinued Operations (net of income taxes)	$	(921)

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

Net assets, after recognition of the loss on the spinoff, of $3.2 billion were distributed to PPL shareowners in the June 1, 2015, spinoff of PPL Energy Supply.

Development

Regional Transmission Line Expansion Plan *(PPL and PPL Electric)*

Northeast/Pocono

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

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

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

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired electricity generating units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

The Cane Run Unit 7 NGCC was put into commercial operation in June 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. KU retired the two remaining coal-fired generating units at the Green River plant in September 2015. LG&E and KU incurred costs of $11 million and $6 million directly related to these retirements including inventory write-downs and separation benefits. There were no gains or losses on the retirement of these units.

In December 2014, a final order was issued by the KPSC approving the request to construct a solar generation facility at the E.W. Brown facility. LG&E and KU completed construction activities and placed a 10 MW facility into commercial operation in June 2016 at a cost of $25 million.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

	2017	2016	2015
PPL	$ 45	$ 50	$ 49
LKE	26	26	24
LG&E	15	15	12
KU	11	11	11

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2018	$ 32	$ 26	$ 15	$ 10
2019	19	16	8	8
2020	13	11	5	6
2021	10	8	3	5
2022	8	6	2	4
Thereafter	22	15	6	8
Total	$ 104	$ 82	$ 39	$ 41

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in shares (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in cash (in dollars)
SIP	15,000,000		2,000,000	750,000	$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock Units

Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

Under the SIP, each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock units granted was:

	2017	2016	2015
PPL	$ 35.30	$ 33.84	$ 34.50
PPL Electric	35.45	34.32	34.41
LKE	35.25	33.73	34.89

Restricted stock unit activity for 2017 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,337,025	$ 31.57
Granted	538,441	35.30
Vested	(567,001)	29.28
Forfeited	(16,816)	34.28
Nonvested, end of period (a)	1,291,649	34.10
PPL Electric		
Nonvested, beginning of period	204,570	$ 31.27
Transfer between registrants	(5,250)	32.05
Granted	79,321	35.45
Vested	(91,117)	28.83
Forfeited	(3,108)	34.68
Nonvested, end of period	184,416	34.20
LKE		
Nonvested, beginning of period	243,281	$ 31.53
Transfer between registrants	25,337	31.61
Granted	97,775	35.25
Vested	(125,612)	29.68
Forfeited	(9,224)	34.04
Nonvested, end of period	231,557	34.01

(a) Excludes 252,850 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock unit awards are expected to vest.

The total fair value of restricted stock units vesting for the years ended December 31 was:

	2017	2016	2015
PPL	$ 20	$ 30	$ 28
PPL Electric	3	3	4
LKE	4	5	4

Performance Units - Total Shareowner Return

Performance units based on Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each years' awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment except for retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2017	2016	2015
Expected stock volatility	17.40%	19.60%	15.90%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of TSR performance units granted was:

	2017	2016	2015
PPL	$ 38.38	$ 35.74	$ 36.76
PPL Electric	38.37	35.68	37.93
LKE	38.24	35.28	37.10

TSR performance unit activity for 2017 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,070,536	$ 34.65
Granted	293,642	38.38
Vested	(243,983)	32.42
Forfeited	(141,964)	32.27
Nonvested, end of period (a)	978,231	36.67
PPL Electric		
Nonvested, beginning of period	76,726	$ 34.68
Granted	26,086	38.37
Vested	(14,713)	32.14
Forfeited	(12,586)	35.45
Nonvested, end of period	75,513	37.00
LKE		
Nonvested, beginning of period	191,601	$ 34.34
Transfer between registrants	8,307	35.96
Granted	64,555	38.24
Vested	(48,980)	32.09
Forfeited	(35,194)	35.25
Nonvested, end of period	180,289	36.69

(a) Excludes 41,405 TSR awards for which the service vesting requirement was waived for former PPL Energy Supply employees as a result of the spinoff, but for which the ultimate number of shares to be distributed will depend on the actual attainment of the performance goals at the end of the specified performance periods.

The total fair value of TSR performance units vesting for the year ended December 31, 2017, 2016 and 2015 was $8 million, $12 million and $6 million for PPL and insignificant for PPL Electric and LKE.

Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

ROE performance unit activity for 2017 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
PPL		
Granted	97,925	$ 34.42
Forfeited	(997)	34.41
Nonvested, end of period	96,928	34.42
PPL Electric		
Granted	8,696	$ 34.41
Nonvested, end of period	8,696	34.41
LKE		
Granted	21,536	$ 34.29
Forfeited	(997)	34.41
Nonvested, end of period	20,539	34.29

Stock Options

PPL's CGNC eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2017, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2017 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	4,481,160	$ 28.98		
Exercised	(718,977)	26.67		
Outstanding and exercisable at end of period	3,762,183	29.42	3.5	$ 14
PPL Electric				
Outstanding at beginning of period	240,939	$ 27.48		
Exercised	(42,659)	26.99		
Outstanding and exercisable at end of period	198,280	27.58	3.8	$ 1
LKE				
Outstanding at beginning of period	61,896	$ 25.81		
Exercised	(28,164)	26.59		
Outstanding and exercisable at end of period	33,732	25.15	4.1	$ —

For 2017, 2016 and 2015, PPL received $19 million, $52 million and $97 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2017, 2016 and 2015 were $8 million, $18 million and $21 million.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2017	2016	2015
PPL	$ 32	$ 27	$ 33
PPL Electric	18	16	14
LKE	8	7	8

See Note 8 for details of the costs recognized in discontinued operations related to the accelerated vesting of awards for former PPL Energy Supply employees.

The income tax benefit related to above compensation expense was as follows:

	2017	2016	2015
PPL	$ 13	$ 12	$ 14
PPL Electric	8	7	6
LKE	3	3	3

At December 31, 2017, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 10	1.7
PPL Electric	2	1.7
LKE	1	1.6

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of the employees of PPL's domestic subsidiaries are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Net periodic defined benefit costs (credits):									
Service cost	$ 65	$ 66	$ 96	$ 76	$ 69	$ 79	$ 7	$ 7	$ 11
Interest cost	168	174	194	178	235	314	23	26	26
Expected return on plan assets	(231)	(228)	(258)	(514)	(504)	(523)	(22)	(22)	(26)
Amortization of:									
Prior service cost (credit)	10	8	7	—	—	—	(1)	—	1
Actuarial (gain) loss	69	50	84	144	138	158	1	1	—
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	81	70	123	(116)	(62)	28	8	12	12
Settlements	1	3	—	—	—	—	—	—	—
Termination benefits	1	—	—	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	$ 83	$ 73	$ 123	$ (116)	$ (62)	$ 28	$ 8	$ 12	$ 12
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Divestiture (a)	$ —	$ —	$ (353)	$ —	$ —	$ —	$ —	$ —	$ (6)

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Settlement	(1)	(3)	—	—	—	—	—	—	—
Net (gain) loss	27	253	63	346	7	508	(28)	9	(9)
Prior service cost (credit)	(1)	15	18	—	—	—	8	—	—
Amortization of:									
Prior service (cost) credit	(10)	(8)	(7)	—	—	—	1	(1)	(1)
Actuarial gain (loss)	(69)	(50)	(85)	(144)	(138)	(158)	(1)	(1)	—
Total recognized in OCI and regulatory assets/liabilities (b)	(54)	207	(364)	202	(131)	350	(20)	7	(16)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	$ 29	$ 280	$ (241)	$ 86	$ (193)	$ 378	$ (12)	$ 19	$ (4)

(a) As a result of the spinoff of PPL Energy Supply, amounts in AOCI were allocated to certain former active and inactive employees of PPL Energy Supply and included in the distribution. See Note 8 for additional details.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
OCI	$ (53)	$ 236	$ (269)	$ (25)	$ 7	$ 12
Regulatory assets/liabilities	(1)	(29)	(95)	5	—	(28)
Total recognized in OCI and regulatory assets/liabilities	$ (54)	$ 207	$ (364)	$ (20)	$ 7	$ (16)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2018 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	$ 10	$ —
Actuarial (gain) loss	86	152
Total	$ 96	$ 152
Amortization from Balance Sheet:		
AOCI	$ 28	$ 152
Regulatory assets/liabilities	68	—
Total	$ 96	$ 152

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Net periodic defined benefit costs (credits):						
Service cost	$ 24	$ 23	$ 26	$ 4	$ 5	$ 5
Interest cost	68	71	68	9	9	9
Expected return on plan assets	(92)	(91)	(88)	(7)	(6)	(6)
Amortization of:						
Prior service cost	8	8	7	1	3	3
Actuarial (gain) loss (a)	31	21	37	—	(1)	—
Net periodic defined benefit costs (b)	$ 39	$ 32	$ 50	$ 7	$ 10	$ 11
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	$ 30	$ 119	$ 20	$ (14)	$ 6	$ (15)
Prior service cost	7	—	19	8	—	—
Amortization of:						
Prior service credit	(8)	(8)	(7)	(1)	(3)	(3)
Actuarial gain (loss)	(32)	(21)	(37)	—	1	—
Total recognized in OCI and regulatory assets/liabilities	(3)	90	(5)	(7)	4	(18)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ 36	$ 122	$ 45	$ —	$ 14	$ (7)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $11 million in 2017, $6 million in 2016 and $9 million in 2015.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
OCI	$ 33	$ 42	$ 4	$ (2)	$ 2	$ (2)
Regulatory assets/liabilities	(36)	48	(9)	(5)	2	(16)
Total recognized in OCI and regulatory assets/liabilities	$ (3)	$ 90	$ (5)	$ (7)	$ 4	$ (18)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2018 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	$ 9	$ 1
Actuarial Loss	39	—
Total	$ 48	$ 1
Amortization from Balance Sheet:		
AOCI	$ 11	$ —
Regulatory assets/liabilities	37	1
Total	$ 48	$ 1

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2017	2016	2015
Net periodic defined benefit costs (credits):			
Service cost	$ 1	$ 1	$ 1
Interest cost	13	15	14
Expected return on plan assets	(22)	(21)	(20)
Amortization of:			
Prior service cost	5	4	3
Actuarial loss (a)	9	7	11
Net periodic defined benefit costs (b)	$ 6	$ 6	$ 9
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net (gain) loss	$ (9)	$ 22	$ 8
Prior service cost	7	—	10
Amortization of:			
Prior service credit	(5)	(4)	(3)
Actuarial gain	(9)	(7)	(11)
Total recognized in regulatory assets/liabilities	(16)	11	4
Total recognized in net periodic defined benefit costs and regulatory assets	$ (10)	$ 17	$ 13

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $7 million in 2017, $5 million in 2016 and $3 million in 2015.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2018 are as follows.

	Pension Benefits
Prior service cost	$ 5
Actuarial loss	9
Total	$ 14

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015
PPL	$ 59	$ 53	$ 71	$ (151)	$ (95)	$ (21)	$ 5	$ 7	$ 8
PPL Electric (a)	12	10	15				—	1	—
LKE (b)	28	24	37				5	6	8
LG&E (b)	8	8	12				3	3	4
KU (a) (b)	4	5	9				1	2	2

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts, $4 million for LG&E and $2 million for KU were recorded as regulatory assets in 2017, $3 million for LG&E and $2 million for KU were recorded as regulatory assets in 2016 and $4 million for LG&E and $1 million for KU were recorded as regulatory assets in 2015.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
LG&E Non-Union Only	$ 5	$ 4	$ 5	$ 3	$ 3	$ 4

(PPL, LKE and LG&E)

PPL, LKE and LG&E adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables with collar and factor adjustments, where applicable) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, in 2014, PPL, LKE and LG&E updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. In 2017, PPL, LKE and LG&E updated to the MP-2017 mortality improvement scale from 2006 on a generational basis. This new mortality assumption reflects the expectation of lower ongoing improvements in life expectancies.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2017	2016	2017	2016	2017	2016
PPL						
Discount rate	3.70%	4.21%	2.65%	2.87%	3.64%	4.11%
Rate of compensation increase	3.78%	3.95%	3.50%	3.50%	3.75%	3.92%
LKE						
Discount rate	3.69%	4.19%			3.65%	4.12%
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%
LG&E						
Discount rate	3.65%	4.13%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2017	2016	2015	2017	2016	2015	2017	2016	2015
PPL									
Discount rate service cost (b)	4.21%	4.59%	4.25%	2.99%	3.90%	3.85%	4.11%	4.48%	4.09%
Discount rate interest cost (b)	4.21%	4.59%	4.25%	2.41%	3.14%	3.85%	4.11%	4.48%	4.09%
Rate of compensation increase	3.95%	3.93%	3.91%	3.50%	4.00%	4.00%	3.92%	3.91%	3.86%
Expected return on plan assets (a)	7.00%	7.00%	7.00%	7.22%	7.20%	7.19%	6.21%	6.11%	6.06%
LKE									
Discount rate	4.19%	4.56%	4.25%				4.12%	4.49%	4.06%
Rate of compensation increase	3.50%	3.50%	3.50%				3.50%	3.50%	3.50%
Expected return on plan assets (a)	7.00%	7.00%	7.00%				6.82%	6.82%	6.82%

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
LG&E									
Discount rate	4.13%	4.49%	4.20%						
Expected return on plan assets (a)	7.00%	7.00%	7.00%						

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

(b) As of January 1, 2016, WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 for additional details.

(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2017	2016	2015
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	6.6%	7.0%	6.8%
– cost	7.0%	6.8%	7.2%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0%	5.0%	5.0%
– cost	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate			
– obligations	2022	2022	2020
– cost	2022	2020	2020

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2017:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	$ 4	$ (4)
LKE	3	(3)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2017	2016	2017	2016	2017	2016
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$ 4,079	$ 3,863	$ 7,383	$ 8,404	$ 591	$ 596
Service cost	65	66	76	69	7	7
Interest cost	168	174	178	235	23	26
Participant contributions	—	—	13	14	14	14
Plan amendments	(1)	14	—	—	8	—
Actuarial (gain) loss	233	214	293	484	4	11
Settlements	(6)	(9)	(1)	—	—	—
Termination benefits	1	—	—	—	—	—
Gross benefits paid	(251)	(243)	(345)	(357)	(59)	(64)
Federal subsidy	—	—	—	—	1	1
Currency conversion	—	—	622	(1,466)	—	—
Benefit Obligation, end of period	4,288	4,079	8,219	7,383	589	591
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,243	3,227	7,211	7,625	378	379
Actual return on plan assets	437	189	480	979	54	25
Employer contributions	65	79	486	330	15	19
Participant contributions	—	—	13	14	13	14
Settlements	(6)	(9)	(1)	—	—	—
Gross benefits paid	(251)	(243)	(345)	(357)	(55)	(59)
Currency conversion	—	—	646	(1,380)	—	—
Plan assets at fair value, end of period	3,488	3,243	8,490	7,211	405	378
Funded Status, end of period	$ (800)	$ (836)	$ 271	$ (172)	$ (184)	$ (213)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	$ —	$ —	$ 284	$ 10	$ 2	$ 2
Current liability	(13)	(17)	—	—	(3)	(3)
Noncurrent liability	(787)	(819)	(13)	(182)	(183)	(212)
Net amount recognized, end of period	$ (800)	$ (836)	$ 271	$ (172)	$ (184)	$ (213)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	$ 49	$ 59	$ —	$ —	$ 9	$ —
Net actuarial (gain) loss	1,134	1,178	2,755	2,553	16	45
Total (a)	$ 1,183	$ 1,237	$ 2,755	$ 2,553	$ 25	$ 45
Total accumulated benefit obligation for defined benefit pension plans	$ 4,000	$ 3,807	$ 7,542	$ 6,780		

(a) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
AOCI	$ 374	$ 357	$ 15	$ 20
Regulatory assets/liabilities	809	880	10	25
Total	$ 1,183	$ 1,237	$ 25	$ 45

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2017	2016	2017	2016
Projected benefit obligation	$ 4,288	$ 4,079	$ 3,083	$ 3,403
Fair value of plan assets	3,488	3,243	3,070	3,221

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2017	2016	2017	2016
Accumulated benefit obligation	$ 4,000	$ 3,807	$ 10	$ 657
Fair value of plan assets	3,488	3,243	—	643

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$ 1,669	$ 1,588	$ 220	$ 216
Service cost	24	23	4	5
Interest cost	68	71	9	9
Participant contributions	—	—	8	7
Plan amendments (a)	6	—	8	—
Actuarial (gain) loss	113	96	(7)	4
Gross benefits paid (a)	(109)	(109)	(19)	(21)
Benefit Obligation, end of period	1,771	1,669	223	220
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,315	1,289	98	88
Actual return on plan assets	175	69	14	4
Employer contributions	21	66	15	20
Participant contributions	—	—	8	7
Gross benefits paid	(109)	(109)	(19)	(21)
Plan assets at fair value, end of period	1,402	1,315	116	98
Funded Status, end of period	$ (369)	$ (354)	$ (107)	$ (122)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$ —	$ —	$ 2	$ 2
Current liability	(4)	(4)	(3)	(3)
Noncurrent liability	(365)	(350)	(106)	(121)
Net amount recognized, end of period	$ (369)	$ (354)	$ (107)	$ (122)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	$ 44	$ 45	$ 13	$ 6
Net actuarial (gain) loss	434	436	(26)	(13)
Total	$ 478	$ 481	$ (13)	$ (7)
Total accumulated benefit obligation for defined benefit pension plans	$ 1,616	$ 1,531		

(a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2016 increased by $19 million as a result of the amendment. Gross benefits paid by the plans include lump-sum cash payments made to participants during 2017 and 2016 of $50 million and $53 million in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
AOCI	$ 144	$ 111	$ 6	$ 8
Regulatory assets/liabilities	334	370	(19)	(15)
Total	$ 478	$ 481	$ (13)	$ (7)

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2017	2016
Projected benefit obligation	$ 1,771	$ 1,669
Fair value of plan assets	1,402	1,315

	ABO in excess of plan assets	
	2017	2016
Accumulated benefit obligation	$ 1,616	$ 1,531
Fair value of plan assets	1,402	1,315

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2017	2016
Change in Benefit Obligation		
Benefit Obligation, beginning of period	$ 329	$ 326
Service cost	1	1
Interest cost	13	15
Plan amendments (a)	6	—
Actuarial (gain) loss	11	15
Gross benefits paid (a)	(34)	(28)
Benefit Obligation, end of period	326	329
Change in Plan Assets		
Plan assets at fair value, beginning of period	318	297
Actual return on plan assets	41	14
Employer contributions	—	35
Gross benefits paid	(34)	(28)
Plan assets at fair value, end of period	325	318
Funded Status, end of period	$ (1)	$ (11)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	$ (1)	$ (11)
Net amount recognized, end of period	$ (1)	$ (11)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	$ 27	$ 25
Net actuarial loss	92	110
Total	$ 119	$ 135
Total accumulated benefit obligation for defined benefit pension plan	$ 326	$ 329

(a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by $10 million as a result of the amendment. Gross benefits paid by the plan include lump-sum cash payments made to participants during 2017 and 2016 of $19 million and $14 million in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2017 and 2016.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2017	2016
Pension	$ 44	$ 42
Other postretirement benefits	74	76

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. As a result of the spinoff of PPL Energy Supply in 2015, pension and other postretirement plans were remeasured resulting in adjustments to PPL Electric's allocated balances of $56 million, reflected as a non-cash contribution on the Statement of Equity. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	2017	2016
Pension	$ 246	$ 281
Other postretirement benefits	62	72

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2017	2016
Pension	$ 36	$ 62
Other postretirement benefits	32	40

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2017 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2017
	2017 (a)	2016	Target Asset Allocation (a)
Growth Portfolio	**56%**	**52%**	**55%**
Equity securities	32 %	30 %	
Debt securities (b)	14 %	12 %	
Alternative investments	10 %	10 %	
Immunizing Portfolio	**43%**	**46%**	**43%**
Debt securities (b)	39 %	43 %	
Derivatives	4 %	3 %	
Liquidity Portfolio	**1%**	**2%**	**2%**
Total	100 %	100 %	100 %

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of $1.4 billion and $1.3 billion at December 31, 2017 and 2016 represents an interest of approximately 40% and 41% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of $325 million and $318 million at December 31, 2017 and 2016 represents an interest of approximately 9% and 10% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$ 301	$ 301	$ —	$ —	$ 181	$ 181	$ —	$ —
Equity securities:								
U.S. Equity	229	229	—	—	152	152	—	—
U.S. Equity fund measured at NAV (a)	364	—	—	—	272	—	—	—
International equity fund at NAV (a)	538	—	—	—	551	—	—	—
Commingled debt measured at NAV (a)	611	—	—	—	546	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	186	186	—	—	381	381	—	—

	December 31, 2017				December 31, 2016			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Corporate	883	—	870	13	850	—	837	13
Other	10	—	10	—	8	—	8	—
Alternative investments:								
Real estate measured at NAV (a)	109	—	—	—	102	—	—	—
Private equity measured at NAV (a)	80	—	—	—	80	—	—	—
Hedge funds measured at NAV (a)	175	—	—	—	167	—	—	—
Derivatives:								
Interest rate swaps and swaptions	50	—	50	—	61	—	61	—
Other	1	—	1	—	3	—	3	—
Insurance contracts	24	—	—	24	27	—	—	27
PPL Services Corporation Master Trust assets, at fair value	3,561	$ 716	$ 931	$ 37	3,381	$ 714	$ 909	$ 40
Receivables and payables, net (b)	72				(15)			
401(h) accounts restricted for other postretirement benefit obligations	(145)				(123)			
Total PPL Services Corporation Master Trust pension assets	$ 3,488				$ 3,243			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2017 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 13	$ 27	$ 40
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	—	(4)	(4)
Balance at end of period	$ 13	$ 24	$ 37

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2016 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 10	$ 32	$ 42
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	3	(6)	(3)
Balance at end of period	$ 13	$ 27	$ 40

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of $28 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed within 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets 2017	Percentage of plan assets 2016	Target Asset Allocation 2017
U.S. Equity securities	47%	48%	45%
Debt securities (a)	49%	50%	50%
Cash and cash equivalents (b)	4%	2%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	$ 10	$ 10	$ —	$ —	$ 5	$ 5	$ —	$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	123	—	—	—	123	—	—	—
Commingled debt fund measured at NAV (a)	96	—	—	—	114	—	—	—
Debt securities:								
Corporate bonds	30	—	30	—	—	—	—	—
Municipalities	—	—	—	—	12	—	12	—
Total VEBA trust assets, at fair value	259	$ 10	$ 30	$ —	254	$ 5	$ 12	$ —
Receivables and payables, net (b)	1				1			
401(h) account assets	145				123			
Total other postretirement benefit plan assets	$ 405				$ 378			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans *(PPL)*

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2017	2016	2017
Asset Class			
Cash and cash equivalents	2%	1%	—%
Equity securities			
U.K.	2%	3%	2%
European (excluding the U.K.)	1%	2%	1%
Asian-Pacific	1%	2%	1%
North American	1%	3%	1%
Emerging markets	1%	3%	1%
Global equities	16%	6%	10%
Global Tactical Asset Allocation	33%	33%	41%
Debt securities (a)	37%	41%	38%
Alternative investments	6%	6%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2017				December 31, 2016			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 216	$ 216	$ —	$ —	$ 42	$ 42	$ —	$ —
Equity securities measured at NAV (a) :								
U.K. companies	157	—	—	—	210	—	—	—
European companies (excluding the U.K.)	98	—	—	—	177	—	—	—
Asian-Pacific companies	60	—	—	—	140	—	—	—
North American companies	123	—	—	—	227	—	—	—
Emerging markets companies	62	—	—	—	209	—	—	—
Global Equities	1,335	—	—	—	466	—	—	—
Other	2,807	—	—	—	2,363	—	—	—
Debt Securities:								
U.K. corporate bonds	3	—	3	—	2	—	2	—
U.K. gilts	3,137	—	3,137	—	2,940	—	2,940	—
Alternative investments:								
Real estate measured at NAV (a)	492	—	—	—	435	—	—	—
Fair value - U.K. pension plans	$ 8,490	$ 216	$ 3,140	$ —	$ 7,211	$ 42	$ 2,942	$ —

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds, which are considered in the Global Tactical Asset Allocation target.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans *(PPL)*

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed $145 million to its U.S. pension plans in January 2018. No additional contributions are expected in 2018.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $13 million of benefit payments under these plans in 2018.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute $14 million to its other postretirement benefit plans in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2018	$ 260	$ 51	$ 1
2019	269	51	—
2020	268	50	1
2021	270	49	—
2022	272	48	—
2023-2027	1,328	218	2

(LKE)

While LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed $105 million to its pension plans in January 2018. No additional contributions are expected in 2018.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make $4 million of benefit payments under these plans in 2018.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected $14 million to its other postretirement benefit plan in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2018	$ 109	$ 14	$ —
2019	113	15	—
2020	114	16	1
2021	115	16	—
2022	116	16	—
2023-2027	573	79	2

(LG&E)

While LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements, LG&E contributed $54 million to its pension plan in January 2018. No additional contributions are expected in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2018	$ 26
2019	26
2020	26
2021	25
2022	24
2023-2027	104

Expected Cash Flows - U.K. Pension Plans *(PPL)*

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuation performed as of March 31, 2016. WPD expects to make contributions of approximately $191 million in 2018. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2018	$ 343
2019	349
2020	353
2021	356
2022	362
2023-2027	1,843

Savings Plans *(All Registrants)*

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2017	2016	2015
PPL	$ 36	$ 35	$ 34
PPL Electric	6	6	6
LKE	18	17	16
LG&E	5	5	5
KU	4	4	4

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job-related qualifications or organizational changes. These benefits include cash severance payments and a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage based on an employee's years of service along with outplacement services. Separation benefits are recorded when such amounts are probable and estimable.

See Note 8 for a discussion of separation benefits recognized in 2015 related to the spinoff of PPL Energy Supply. Separation benefits were not significant in 2017 and 2016.

12. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2017 and 2016, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2017				
Generating Plants				
Trimble County Unit 1	75.00%	$ 427	$ 69	$ 1
Trimble County Unit 2	75.00%	1,032	176	198
December 31, 2016				
Generating Plants				
Trimble County Unit 1	75.00%	$ 407	$ 55	$ 1
Trimble County Unit 2	75.00%	1,026	161	83
LG&E				
December 31, 2017				
Generating Plants				
E.W. Brown Units 6-7	38.00%	$ 41	$ 17	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	52	15	—
Trimble County Unit 1	75.00%	427	69	1
Trimble County Unit 2	14.25%	215	36	102
Trimble County Units 5-6	29.00%	32	9	—
Trimble County Units 7-10	37.00%	73	21	—
Cane Run Unit 7	22.00%	120	8	1
E.W. Brown Solar Unit	39.00%	10	1	—
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	38.00%	$ 40	$ 15	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	55	12	1
Trimble County Unit 1	75.00%	407	55	1
Trimble County Unit 2	14.25%	214	32	43
Trimble County Units 5-6	29.00%	30	8	1
Trimble County Units 7-10	37.00%	71	17	1
Cane Run Unit 7	22.00%	114	5	2
E.W. Brown Solar Unit	39.00%	10	—	—
KU				
December 31, 2017				
Generating Plants				
E.W. Brown Units 6-7	62.00%	$ 66	$ 27	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	13	—

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
Trimble County Unit 2	60.75%	817	140	96
Trimble County Units 5-6	71.00%	76	20	—
Trimble County Units 7-10	63.00%	120	34	—
Cane Run Unit 7	78.00%	431	31	4
E.W. Brown Solar Unit	61.00%	16	1	—
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	62.00%	$ 65	$ 23	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	50	11	1
Trimble County Unit 2	60.75%	812	129	40
Trimble County Units 5-6	71.00%	74	19	—
Trimble County Units 7-10	63.00%	121	29	1
Cane Run Unit 7	78.00%	412	18	4
E.W. Brown Solar Unit	61.00%	15	—	—

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

(PPL)

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

Energy Purchase Commitments *(PPL, LKE, LG&E and KU)*

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2019
Natural Gas Retail Supply	2019
Coal	2023
Coal Transportation and Fleeting Services	2024
Natural Gas Transportation	2026

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2018	$ 20	$ 9	$ 29
2019	19	8	27
2020	18	8	26
2021	19	8	27
2022	19	8	27
Thereafter	316	141	457
Total	$ 411	$ 182	$ 593

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2017	2016	2015
LG&E	$ 14	$ 16	$ 15
KU	6	7	7
Total	$ 20	$ 23	$ 22

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 and LG&E)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter. 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.

(PPL, LKE and KU)

E.W. Brown Environmental Claims

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. KU is undertaking extensive remedial measures at the Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan, and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. PPL, LKE and KU cannot predict the outcome of these matters.

(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order 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 moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a "special waste" landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit which were subsequently dismissed by agreed order entered in August 2017. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws.

(All Registrants)

Regulatory Issues

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 electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

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

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

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

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

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

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

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

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

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

Ozone

The EPA issued the current ozone standard in October 2015. The states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment demonstrations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. While implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. While PPL, LKE, LG&E, and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E, and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

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

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

There continues to be uncertainty around the EPA's regulation of existing coal-fired power plants. In 2015 the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

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

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

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

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. The EPA has advised the court that it expects to reconsider certain aspects of the CCR Rule in the near future.

In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR Rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain elements of the new rule. PPL, LKE, LG&E and KU cannot predict the ultimate outcome of the litigation. LG&E and KU presently operate their Trimble County facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the challenge to the new rule. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. The Kentucky Energy and Environmental Cabinet indicated it may propose rules under such authority in the future.

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

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 19 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

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

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

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At December 31, 2017, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

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

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 54 employees. The terms of the new labor agreement do not have a significant impact on the financial results of LKE or KU.

(LKE and LG&E)

In November 2017, LG&E and the IBEW ratified a three-year labor agreement through November 2020. The agreement covers approximately 671 employees. The terms of the new labor agreement do not have a significant impact on the financial results of LKE or LG&E.

The Registrants cannot predict the outcome of future union labor negotiations.

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 December 31, 2017. "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 December 31, 2017 was $17 million for PPL and $11 million for LKE. The $11 million recorded at LKE represents the settlement amount related to WKE's excess power matter. See footnote (e) for additional information. The total recorded liability at December 31, 2016 was $22 million for PPL and $17 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at December 31, 2017		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 11	(b)	2020
WPD guarantee of pension and other obligations of unconsolidated entities	95	(c)	
PPL Electric			
Guarantee of inventory value	16	(d)	2018
LKE			
Indemnification of lease termination and other divestitures	201	(e)	2021-2023
LG&E and KU			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

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

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

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

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.

(d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold. In January 2018, this agreement was superseded by a new contract which extends the guarantee until 2020.

(e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of $200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee formerly covered other indemnifications related to the purchase price of excess power, had a term expiring in 2023, and a maximum exposure of $100 million, which excess power matter and related indemnifications had been the subject of a dispute and legal proceeding among the parties. In December 2017, the parties executed settlement agreements which resolved all claims relating to the excess power matter, and terminated such guarantee, for $11 million. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

(f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was $117 million at December 31, 2017, consisting of LG&E's share of $81 million and KU's share of $36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, have allowed implementation of a limited, partial OVEC reserve fund for debt costs and are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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

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

14. Related Party Transactions

PLR Contracts/Purchases of Accounts Receivable *(PPL Electric)*

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

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric and LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2017	2016	2015
PPL Electric from PPL Services	$ 182	$ 132	$ 125
LKE from PPL Services	20	18	16
PPL Electric from PPL EU Services	64	69	60
LG&E from LKS	169	178	155
KU from LKS	190	194	185

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

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a $400 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at December 31, 2017 and 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income on the revolving line of credit was not significant for 2017, 2016 or 2015.

(LKE)

LKE maintains a revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. In December 2017, the revolving line of credit was increased by $50 million and the limit as of December 31, 2017 was $275 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2017 and 2016, $225 million and $163 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2017 and 2016 was 2.87% and 2.12%. Interest expense on the revolving line of credit was not significant for 2017, 2016 or 2015.

LKE maintains an agreement with a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2017 and 2016. The interest rate on the loan based on the PPL affiliates credit rating is currently equal to one-month LIBOR plus a spread. Interest income on this note was not significant for 2017, 2016 or 2015.

LKE maintains a $400 million ten-year-note with a PPL affiliate with an interest rate of 3.5%. At December 31, 2017 and 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was $14 million for 2017 and 2016 and not significant for 2015.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2017 and 2016. Interest expense incurred on the money pool agreement with KU was not significant for 2017 or 2016. There was no money pool activity with KU in 2015.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2017 and 2016. Interest income incurred on the money pool agreement with LG&E was not significant for 2017 and 2016. There was no money pool activity with LG&E in 2015.

Intercompany Derivatives *(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties.

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

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

	2017	2016	2015
Other Income			
Economic foreign currency exchange contracts (Note 17)	$ (261)	$ 384	$ 122
Interest income	2	3	4
AFUDC - equity component	16	19	14
Miscellaneous	17	6	6
Total Other Income	(226)	412	146
Other Expense			
Charitable contributions	8	9	21
Miscellaneous	21	13	17
Total Other Expense	29	22	38
Other Income (Expense) - net	$ (255)	$ 390	$ 108

16. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 485	$ 485	$ —	$ —	$ 341	$ 341	$ —	$ —
Restricted cash and cash equivalents (a)	26	26	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	163	—	163	—	211	—	211	—
Cross-currency swaps	101	—	101	—	188	—	188	—
Total price risk management assets	264	—	264	—	399	—	399	—
Total assets	$ 775	$ 511	$ 264	$ —	$ 766	$ 367	$ 399	$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	$ 26	$ —	$ 26	$ —	$ 31	$ —	$ 31	$ —
Foreign currency contracts	148	—	148	—	27	—	27	—
Total price risk management liabilities	$ 174	$ —	$ 174	$ —	$ 58	$ —	$ 58	$ —
PPL Electric								
Assets								
Cash and cash equivalents	$ 49	$ 49	$ —	$ —	$ 13	$ 13	$ —	$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	$ 51	$ 51	$ —	$ —	$ 15	$ 15	$ —	$ —
LKE								
Assets								
Cash and cash equivalents	$ 30	$ 30	$ —	$ —	$ 13	$ 13	$ —	$ —
Cash collateral posted to counterparties (c)	—	—	—	—	3	3	—	—
Total assets	$ 30	$ 30	$ —	$ —	$ 16	$ 16	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 26	$ —	$ 26	$ —	$ 31	$ —	$ 31	$ —
Total price risk management liabilities	$ 26	$ —	$ 26	$ —	$ 31	$ —	$ 31	$ —
LG&E								
Assets								
Cash and cash equivalents	$ 15	$ 15	$ —	$ —	$ 5	$ 5	$ —	$ —
Cash collateral posted to counterparties (c)	—	—	—	—	3	3	—	—
Total assets	$ 15	$ 15	$ —	$ —	$ 8	$ 8	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 26	$ —	$ 26	$ —	$ 31	$ —	$ 31	$ —
Total price risk management liabilities	$ 26	$ —	$ 26	$ —	$ 31	$ —	$ 31	$ —
KU								
Assets								
Cash and cash equivalents	$ 15	$ 15	$ —	$ —	$ 7	$ 7	$ —	$ —
Total assets	$ 15	$ 15	$ —	$ —	$ 7	$ 7	$ —	$ —

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

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

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

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

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

Nonrecurring Fair Value Measurements *(PPL)*

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

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

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

	December 31, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	$ 20,195	$ 23,783	$ 18,326	$ 21,355
PPL Electric	3,298	3,769	2,831	3,148
LKE	5,159	5,670	5,065	5,439
LG&E	1,709	1,865	1,617	1,710
KU	2,328	2,605	2,327	2,514

(a) Amounts are net of debt issuance costs.

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

17. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

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

Market Risk

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

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

Interest Rate Risk

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

Foreign Currency Risk (PPL)

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

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

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

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

Equity Securities Price Risk

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

Credit Risk

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

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

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

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

Master Netting Arrangements *(PPL, LKE, LG&E and KU)*

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

PPL had a $20 million and $19 million obligation to return cash collateral under master netting arrangements at December 31, 2017 and 2016.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2017 and 2016.

PPL, LKE, and LG&E had no cash collateral posted under master netting arrangements at December 31, 2017. PPL, LKE and LG&E posted $3 million of cash collateral under master netting arrangements at December 31, 2016.

KU did not post any cash collateral under master netting arrangements at December 31, 2017 and 2016.

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

Interest Rate Risk

(All Registrants)

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

<u>Cash Flow Hedges</u> *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at December 31, 2017.

For 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For 2016 and 2015, hedge ineffectiveness associated with interest rate derivatives was insignificant.

At December 31, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. In December 2017, $100 million of WPD's U.S. dollar-denominated senior notes were repaid upon maturity and $100 million notional value of cross-currency interest rate swap contracts matured. PPL recorded a $19 million gain upon settlement of the cross-currency interest rate swap contracts, which largely offset a loss recorded on the revaluation of U.S. dollar-denominated senior notes.

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

PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2017 and 2016.

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

At December 31, 2017, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

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

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. In December 2016, a swap with a notional amount of $32 million was terminated. A cash settlement of $9 million was paid on the terminated swap. The settlement is included in noncurrent regulatory assets on the Balance Sheet and in "Cash Flows from Operating Activities" on the Statement of Cash Flows. At December 31, 2017, LG&E held contracts with a notional amount of $147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

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

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at December 31, 2017.

At December 31, 2017 and 2016, PPL had $22 million and $21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2017, the total exposure hedged by PPL was approximately £2.6 billion (approximately $3.5 billion based on contracted rates). These contracts had termination dates ranging from January 2018 through June 2020.

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

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2017 and 2016.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

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

	December 31, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	$ —	$ —	$ —	$ 4	$ —	$ —	$ —	$ 4
Cross-currency swaps (b)	4	—	—	—	32	—	—	—
Foreign currency contracts	—	—	45	67	—	—	31	21
Total current	4	—	45	71	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	22	—	—	—	27
Cross-currency swaps (b)	97	—	—	—	156	—	—	—
Foreign currency contracts	—	—	118	81	—	—	180	6
Total noncurrent	97	—	118	103	156	—	180	33
Total derivatives	$ 101	$ —	$ 163	$ 174	$ 188	$ —	$ 211	$ 58

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

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2017				
Cash Flow Hedges:				
Interest rate swaps	$ —	Interest Expense	$ (9)	$ —
Cross-currency swaps	(98)	Other Income (Expense) - net	(82)	—
Total	$ (98)		$ (91)	$ —
Net Investment Hedges:				
Foreign currency contracts	$ 1			
2016				
Cash Flow Hedges:				

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	$ (21)	Interest Expense	$ (7)	$ —
Cross-currency swaps	130	Other Income (Expense) - net	116	—
		Interest Expense	3	—
Total	$ 109		$ 112	$ —
Net Investment Hedges:				
Foreign currency contracts	$ 2			
2015				
Cash Flow Hedges:				
Interest rate swaps	$ (34)	Interest Expense	$ (11)	$ —
		Discontinued operations	—	(77)
Cross-currency swaps	60	Other Income (Expense) - net	49	—
		Interest Expense	2	—
Commodity contracts		Discontinued operations	13	7
Total	$ 26		$ 53	$ (70)
Net Investment Hedges:				
Foreign currency contracts	$ 9			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2017	2016	2015
Foreign currency contracts	Other Income (Expense) - net	$ (261)	$ 384	$ 122
Interest rate swaps	Interest Expense	(6)	(7)	(8)
	Total	$ (267)	$ 377	$ 114

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	$ —	$ —	$ (22)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	$ 5	$ 7	$ 1

(LKE)

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

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	$ —	$ —	$ (22)

(LG&E)

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

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory asset - noncurrent	$ —	$ —	$ (11)

(KU)

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

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	$ —	$ —	$ (11)

(LKE and LG&E)

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

	December 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	$ —	$ 4	$ —	$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	—	22	—	27
Total noncurrent	—	22	—	27
Total derivatives	$ —	$ 26	$ —	$ 31

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

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Interest Expense	$ (6)	$ (7)	$ (8)

Derivative Instruments	Location of Gain (Loss)	2017	2016	2015
Interest rate swaps	Regulatory assets - noncurrent	$ 5	$ 7	$ 1

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

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

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

December 31, 2017

	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
Treasury Derivatives								
PPL	$ 264	$ 107	$ 20	$ 137	$ 174	$ 107	$ —	$ 67
LKE	—	—	—	—	26	—	—	26
LG&E	—	—	—	—	26	—	—	26
December 31, 2016								
Treasury Derivatives								
PPL	$ 399	$ 27	$ 19	$ 353	$ 58	$ 27	$ 3	$ 28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

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

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

(PPL, LKE and LG&E)

At December 31, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	$ 51	$ 10	$ 10
Aggregate fair value of collateral posted on these derivative instruments	—	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	51	10	10

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

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Total	
	2017	2016	2017	2016	2017	2016
Balance at beginning of period (a)	$ 2,398	$ 2,888	$ 662	$ 662	$ 3,060	$ 3,550
Effect of foreign currency exchange rates	198	(490)			198	(490)
Balance at end of period (a)	$ 2,596	$ 2,398	$ 662	$ 662	$ 3,258	$ 3,060

(a) There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$ 138	$ 67	$ 405	$ 325
Land and transmission rights	382	120	362	115
Emission allowances/RECs (b)	1	—	2	—
Licenses and other	7	3	6	2
Total subject to amortization	528	190	775	442
Not subject to amortization due to indefinite life:				
Land and transmission rights	12	—	19	—
Easements	347	—	348	—
Total not subject to amortization due to indefinite life	359	—	367	—
Total	$ 887	$ 190	$ 1,142	$ 442

(a) Gross carrying amount in 2017 and 2016 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. Gross carrying amount in 2016 also includes the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. At December 31, 2016, these coal contracts were fully amortized. Offsetting regulatory liabilities were recorded related to these contracts, which are being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.

(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	9	24	51
Total	$ 15	$ 30	$ 57

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	9	9	8	8	8
Total	$ 15	$ 15	$ 14	$ 14	$ 14

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	$ 361	$ 117	$ 341	$ 112
Licenses and other	3	1	3	1
Total subject to amortization	364	118	344	113
Not subject to amortization due to indefinite life:				
Land and transmission rights	13	—	20	—
Total	$ 377	$ 118	$ 364	$ 113

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2017, 2016 and 2015 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ —	$ —	$ 269	$ 269
Land and transmission rights	21	3	21	3
OVEC power purchase agreement (b)	126	58	126	49
Total subject to amortization	$ 147	$ 61	$ 416	$ 321

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.

(b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	$ —	$ 1	$ —
Intangible assets with regulatory offset	9	24	51
Total	$ 9	$ 25	$ 51

Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	$ 9	$ 9	$ 8	$ 8	$ 8

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ —	$ —	$ 124	$ 124
Land and transmission rights	7	1	7	1
OVEC power purchase agreement (b)	87	40	87	34
Total subject to amortization	$ 94	$ 41	$ 218	$ 159

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.

(b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with regulatory offset	$ 6	$ 13	$ 24

Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ —	$ —	$ 145	$ 145
Land and transmission rights	14	2	14	2
OVEC power purchase agreement (b)	39	18	39	15
Total subject to amortization	$ 53	$ 20	$ 198	$ 162

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible asset, eliminating any income statement impact.

(b) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2017	2016	2015
Intangible assets with no regulatory offset	$ —	$ 1	$ —
Intangible assets with regulatory offset	3	11	27
Total	$ 3	$ 12	$ 27

Amortization expense for each of the next five years is estimated to be:

	2018	2019	2020	2021	2022
Intangible assets with regulatory offset	$ 3	$ 3	$ 2	$ 2	$ 2

19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

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

	PPL		LKE		LG&E		KU	
	2017	2016	2017	2016	2017	2016	2017	2016
ARO at beginning of period	$ 488	$ 586	$ 433	$ 535	$ 145	$ 175	$ 288	$ 360
Accretion	21	24	20	22	7	7	13	15
Changes in estimated timing or cost (a)	(73)	(84)	(54)	(95)	(8)	(19)	(46)	(76)
Effect of foreign currency exchange rates	4	(9)	—	—	—	—	—	—
Obligations settled	(43)	(29)	(43)	(29)	(23)	(18)	(20)	(11)
ARO at end of period	$ 397	$ 488	$ 356	$ 433	$ 121	$ 145	$ 235	$ 288

(a) LKE recorded decreases of $60 million ($52 million at KU and $8 million at LG&E) and $114 million ($90 million at KU and $24 million at LG&E) to the existing AROs during 2017 and 2016 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

See Note 13 for information on the final CCR rule and Note 6 for information on the rate recovery applications.

20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 were as follows:

		Unrealized gains (losses)			Defined benefit plans		
	Foreign currency translation adjustments	Available-for-sale securities	Qualifying derivatives	Equity investees' AOCI	Prior service costs	Actuarial gain (loss)	Total
PPL							
December 31, 2014	$ (286)	$ 201	$ 20	$ 1	$ 3	$ (2,213)	$ (2,274)
Amounts arising during the year	(234)	8	26	—	(9)	(366)	(575)
Reclassifications from AOCI	—	(2)	2	(1)	—	146	145
Net OCI during the year	(234)	6	28	(1)	(9)	(220)	(430)
Distribution of PPL Energy Supply (See Note 8)	—	(207)	(55)	—	—	238	(24)
December 31, 2015	$ (520)	$ —	$ (7)	$ —	$ (6)	$ (2,195)	$ (2,728)
Amounts arising during the year	(1,107)	—	91	—	(3)	(61)	(1,080)
Reclassifications from AOCI	—	—	(91)	(1)	1	121	30
Net OCI during the year	(1,107)	—	—	(1)	(2)	60	(1,050)
December 31, 2016	$ (1,627)	$ —	$ (7)	$ (1)	$ (8)	$ (2,135)	$ (3,778)
Amounts arising during the year	538	—	(79)	—	—	(308)	151
Reclassifications from AOCI	—	—	73	1	1	130	205
Net OCI during the year	538	—	(6)	1	1	(178)	356
December 31, 2017	$ (1,089)	$ —	$ (13)	$ —	$ (7)	$ (2,313)	$ (3,422)
LKE							
December 31, 2014				$ —	$ (8)	$ (37)	$ (45)
Amounts arising during the year				—	(3)	(4)	(7)
Reclassifications from AOCI				—	1	5	6
Net OCI during the year				—	(2)	1	(1)
December 31, 2015				$ —	$ (10)	$ (36)	$ (46)
Amounts arising during the year				—	—	(27)	(27)
Reclassifications from AOCI				(1)	2	2	3
Net OCI during the year				(1)	2	(25)	(24)
December 31, 2016				$ (1)	$ (8)	$ (61)	$ (70)
Amounts arising during the year				—	(2)	(23)	(25)
Reclassifications from AOCI				1	1	5	7
Net OCI during the year				1	(1)	(18)	(18)
December 31, 2017				$ —	$ (9)	$ (79)	$ (88)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2017, 2016 and 2015. LKE amounts are insignificant for the years ended December 31, 2017, 2016 and 2015. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

	PPL			
Details about AOCI	2017	2016	2015	Affected Line Item on the Statements of Income
Available-for-sale securities	$ —	$ —	$ 4	Other Income (Expense) - net
Total Pre-tax	—	—	4	
Income Taxes	—	—	(2)	
Total After-tax	—	—	2	
Qualifying derivatives				

Details about AOCI	PPL 2017	PPL 2016	PPL 2015	Affected Line Item on the Statements of Income
Interest rate swaps	(9)	(7)	(11)	Interest Expense
	—	—	(77)	Discontinued operations
Cross-currency swaps	(82)	116	49	Other Income (Expense) - net
	—	3	2	Interest Expense
Commodity contracts	—	—	20	Discontinued operations
Total Pre-tax	(91)	112	(17)	
Income Taxes	18	(21)	15	
Total After-tax	(73)	91	(2)	
Equity Investees' AOCI	(1)	1	1	Other Income (Expense) - net
Total Pre-tax	(1)	1	1	
Income Taxes	—	—	—	
Total After-tax	(1)	1	1	
Defined benefit plans				
Prior service costs	(2)	(2)	—	
Net actuarial loss	(167)	(156)	(192)	
Total Pre-tax	(169)	(158)	(192)	
Income Taxes	38	36	46	
Total After-tax	(131)	(122)	(146)	
Total reclassifications during the year	$ (205)	$ (30)	$ (145)	

21. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

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

The Registrants have completed an assessment of their revenue under this new guidance and have determined it will not have a material impact on their current revenue recognition policies. The Registrants' operating revenues are derived primarily from tariff-based sales that result from providing electricity and natural gas to customers with no defined contractual term. Tariff-based sales are within the scope of the new guidance, and operating revenues under the new guidance will be equivalent to the electricity and natural gas delivered and billed in that period (including estimated billings), which is consistent with current practice.

The disclosure requirements included in the standard will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Registrants will include disaggregation of revenues by geographic location, customer class or type of service, as applicable. Some revenue arrangements, including alternative revenue programs and lease income, are excluded from the scope of the new guidance and will be accounted for and disclosed separately from revenues from contracts with customers. The Registrants will also disclose the opening and closing balances of accounts receivable and any contract assets or contract liabilities resulting from contracts with customers.

The Registrants adopted this guidance effective January 1, 2018 using the modified retrospective transition method.

Accounting for Leases

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

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

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. One of these practical expedients allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

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

Accounting for Financial Instrument Credit Losses

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

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance beginning after December 15, 2018, including interim periods within those years.

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

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Registrants adopted this guidance effective January 1, 2018.

For PPL's, LKE's and LG&E's U.S. defined benefit pension and PPL's and LKE's other postretirement benefit plans, the adoption of this new guidance is not expected to have a material impact on either the presentation on the income statements or the amounts capitalized and related impact to expense, as the difference between the service cost and the non-service cost components of net periodic benefit costs has not historically been and is not expected to be material in 2018.

For PPL's U.K. defined benefit pension plans, the non-service cost components of net periodic benefit cost has been in a net-credit position for the current reporting periods and is expected to continue to be in a net-credit position for 2018. Therefore, the estimated impact of adopting this new guidance related to the non-service cost component credits to be reclassified from "Other operation and maintenance" to "Other Income (Expense)-net" on the Statements of Income is approximately $175 million and $120 million for the years ended 2017 and 2016.

The Registrants are finalizing the expected 2018 impacts of adopting the guidance as the amounts are affected by market conditions and assumptions selected at December 31, 2017.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

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

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

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

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

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

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

(PPL and LKE)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The Registrants are currently assessing this guidance and the period in which they will adopt it.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries

(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2017				
Operating revenues	$ 1,951	$ 1,725	$ 1,845	$ 1,926
Operating income	796	702	777	793
Net income	403	292	355	78
Net income available to PPL common shareowners: (b)				
Basic EPS	0.59	0.43	0.52	0.11
Diluted EPS	0.59	0.43	0.51	0.11
Dividends declared per share of common stock (c)	0.3950	0.3950	0.3950	0.3950
Price per common share:				
High	$ 37.70	$ 40.06	$ 39.83	$ 38.37
Low	33.94	37.11	37.36	30.76
2016				
Operating revenues	$ 2,011	$ 1,785	$ 1,889	$ 1,832
Operating income	823	725	786	714
Net income	481	483	473	465
Net income available to PPL common shareowners: (b)				
Basic EPS	0.71	0.71	0.70	0.68
Diluted EPS	0.71	0.71	0.69	0.68
Dividends declared per share of common stock (c)	0.38	0.38	0.38	0.38
Price per common share:				
High	$ 38.07	$ 39.68	$ 37.71	$ 34.74
Low	32.80	36.27	33.63	32.19

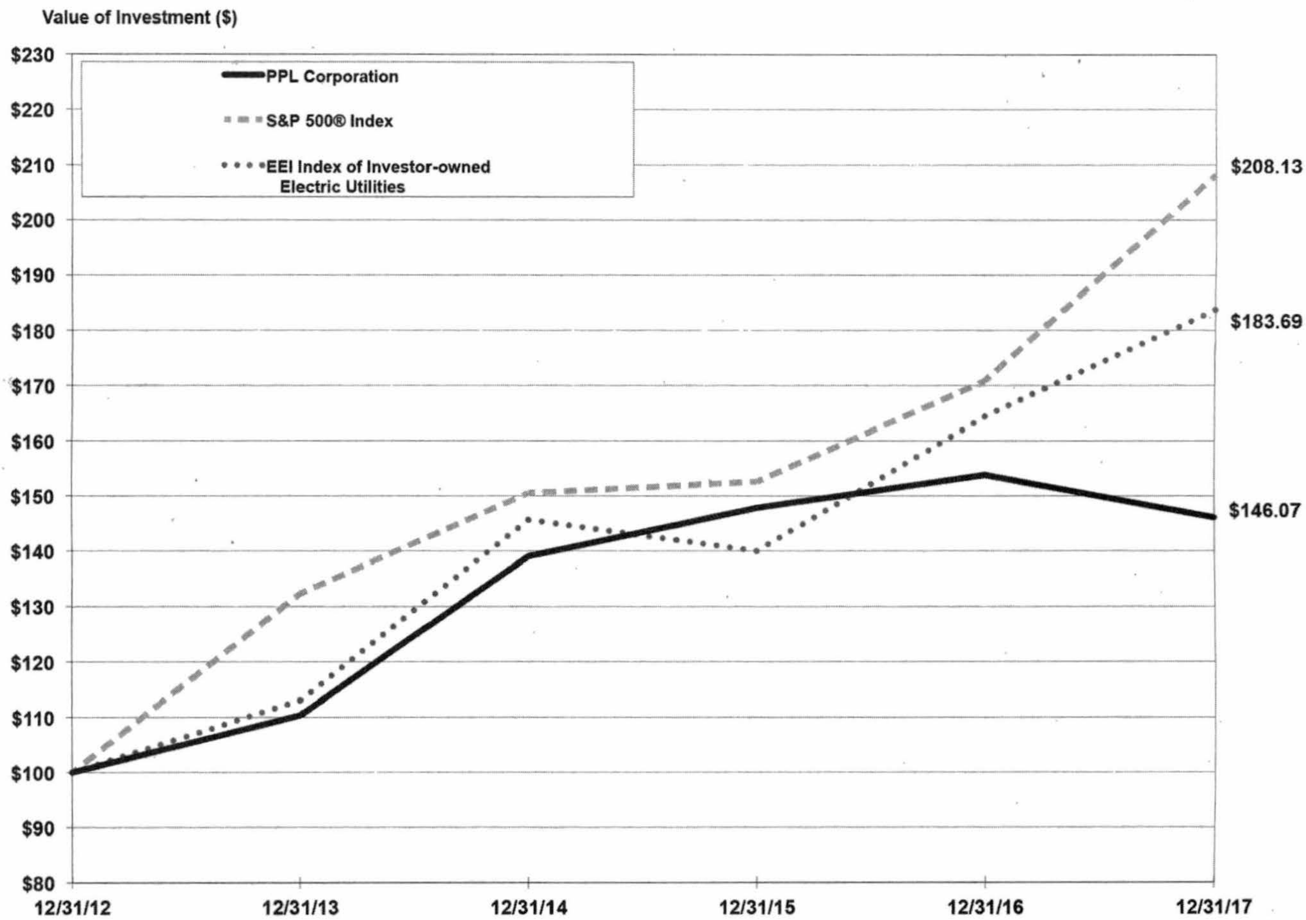
(a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

(b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.

(c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

Comparison of 5-Year Cumulative Total Return

For PPL Corporation, S&P 500® Index and EEI Index of Investor-owned Electric Utilities*



* Assumes investing $100 on December 31, 2012, and reinvesting dividends in PPL common stock, S&P 500® Index and EEI Index of Investor-owned Electric Utilities. Cash equivalent dividend of $2.505, related to the spin of the Supply business, is assumed reinvested on June 2, 2015, for PPL's TSR calculation.

Management's Report on Internal Control over Financial Reporting

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2017. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

401(h) account(s) - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

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

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

Act 129 Smart Meter program - PPL Electric's system-wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

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

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AIP - annual iteration process.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

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

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

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

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

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

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

DNO - Distribution Network Operator in the U.K.

DOJ - U.S. Department of Justice.

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

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

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

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

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

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

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

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

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

EPS - earnings per share.

Fast pot - Under RIIO-ED1, Totex costs that are recovered in the period they are incurred.

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

GWh - gigawatt-hour, one million kilowatt hours.

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.

IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

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

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

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

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

MMBtu - one million British Thermal Units.

MOD - a mechanism applied in the U.K. to adjust allowed base demand revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

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

MPR- Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users.

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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

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

OCI - other comprehensive income or loss.

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

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

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) total shareowner return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

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

PP&E - property, plant and equipment.

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

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

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

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the PJM grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

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

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

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

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.

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

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

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

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

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

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

SIP - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

Slow pot - Under RIIO-ED1, Totex costs that are added (capitalized) to RAV and recovered through depreciation over a 20 to 45 year period.

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

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

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

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

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

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

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

Totex (total expenditures) - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

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

TRU - a mechanism applied in the U.K. to true-up inflation estimates used in determining base demand revenue.

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

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

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Reconciliation of Net Income to Earnings from Ongoing Operations

	(Per Share - Diluted)					
	U.K. Reg.	**KY Reg.**	**PA Reg.**	**Corp. & Other**	**Total 2017**	Total 2016
Net Income	**$0.95**	**$0.42**	**$0.52**	**$(0.25)**	**$1.64**	$2.79
Less: Special Items (expense) benefit:*						
Foreign currency economic hedges	**(0.15)**	-	-	-	**(0.15)**	(0.01)
U.S. tax reform	**(0.18)**	**(0.16)**	**0.01**	**(0.14)**	**(0.47)**	-
Settlement of foreign currency contracts	-	-	-	-	-	0.30
Change in U.K. tax rate	-	-	-	-	-	0.05
Settlement of indemnification agreement	-	**0.01**	-	-	**0.01**	-
Total Special Items	**(0.33)**	**(0.15)**	**0.01**	**(0.14)**	**(0.61)**	0.34
Earnings from Ongoing Operations	**$1.28**	**$0.57**	**$0.51**	**$(0.11)**	**$2.25**	$2.45

**See Combined Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on special items.*

2018 Earnings Forecast by Segment

The 2018 forecast range for earnings is $2.20 to $2.40 per share, with a midpoint of $2.30 per share. PPL's 2018 forecast includes the full impact of U.S. tax reform.

Per share	2018 Earnings Forecast Midpoint	2017 Earnings from Ongoing Operations
U.K. Regulated	**$1.32**	**$1.28**
Kentucky Regulated	**0.52**	**0.57**
Pennsylvania Regulated	**0.57**	**0.51**
Corporate and Other	**(0.11)**	**(0.11)**
Total	**$2.30**	**$2.25**

U.K. Regulated Segment

PPL projects higher segment earnings in 2018 compared with 2017. The increase in reported earnings reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher foreign currency exchange rates and higher pension income, partially offset by higher taxes and the effect of share dilution. The remaining 2018 foreign currency exposure for this segment is 100 percent hedged at an average rate of $1.34 per pound, compared to an average rate of $1.20 per pound in 2017.

Kentucky Regulated Segment

PPL projects higher reported segment earnings in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be lower, driven primarily by higher operation and maintenance expense, higher depreciation expense, higher interest expense, a lower tax shield on holding company interest and expenses, and the effect of share dilution, partially offset by an assumed return to normal weather and higher base electricity and gas rates effective July 1, 2017.

Pennsylvania Regulated Segment

PPL projects higher segment earnings in 2018 compared with 2017, driven primarily by higher transmission earnings and lower operation and maintenance expense, partially offset by higher depreciation expense, higher interest expense and the effect of share dilution.

Corporate and Other

PPL projects lower reported costs in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, PPL projects costs to be flat in this category in 2018 compared with 2017 with a lower tax shield on holding company interest expense offset by lower financing costs.

DIRECTORS & OFFICERS

DIRECTORS

Rodney C. Adkins, 59, President of 3RAM Group, LLC, an investment, consulting and property management firm. He retired as a Senior Vice President of International Business Machines Corporation, a globally integrated technology and consulting company.

John W. Conway, 72, retired Chief Executive Officer of Crown Holdings, Inc., an international manufacturer of packaging products for consumer goods. He remains Chairman of the Board of Crown Holdings.

Steven G. Elliott, 71, retired as Senior Vice Chairman of The Bank of New York Mellon Corporation, an investment management and investment servicing company.

Raja Rajamannar, 56, Chief Marketing & Communications Officer and President, Heathcare, of MasterCard International Incorporated, a technology company in the global payments industry.

Craig A. Rogerson, 61, Chairman, President and Chief Executive Officer of Hexion Inc., a global producer of thermoset resins as well as other chemical platforms serving a wide range of market applications.

William H. Spence, 61, Chairman, President and Chief Executive Officer of PPL Corporation.

Natica von Althann, 67, a founding partner of C&A Advisors, a consulting firm in the areas of financial services and risk management, from 2009 until 2013. She retired in 2008 as the Senior Credit Risk Management Executive for Bank of America and Chief Credit Officer of U.S. Trust, an investment management company.

Keith H. Williamson, 65, Executive Vice President, Secretary and General Counsel of Centene Corporation, a provider of Medicaid-managed care and specialty healthcare services for under-insured and uninsured individuals.

Phoebe A. Wood, 64, principal of CompaniesWood, a consulting firm specializing in early stage investments. She is the former Vice Chairman and Chief Financial Officer of Brown-Forman Corporation, a diversified consumer products manufacturer.

Armando Zagalo de Lima, 59, retired as an Executive Vice President of Xerox Corporation, a multinational enterprise for business process and document management.

BOARD COMMITTEES

Executive Committee
William H. Spence, Chair
John W. Conway
Steven G. Elliott
Craig A. Rogerson
Natica von Althann

Audit Committee
Steven G. Elliott, Chair
Rodney C. Adkins
Raja Rajamannar
Craig A. Rogerson
Keith H. Williamson
Armando Zagalo de Lima

Compensation, Governance and Nominating Committee
Craig A. Rogerson, Chair
John W. Conway
Raja Rajamannar
Natica von Althann
Phoebe A. Wood

Finance Committee
Natica von Althann, Chair
Rodney C. Adkins
John W. Conway
Steven G. Elliott
Keith H. Williamson
Armando Zagalo de Lima

EXECUTIVE OFFICERS

William H. Spence, Chairman, President and Chief Executive Officer, PPL Corporation
Joanne H. Raphael, Senior Vice President, General Counsel and Corporate Secretary, PPL Corporation
Vincent Sorgi, Senior Vice President and Chief Financial Officer, PPL Corporation
Gregory N. Dudkin, President, PPL Electric Utilities Corporation
Robert A. Symons, Chief Executive, Western Power Distribution
Paul W. Thompson, Chairman of the Board, Chief Executive Officer and President, LG&E and KU Energy LLC
Stephen K. Breininger, Vice President and Controller, PPL Corporation
Tadd J. Henninger, Vice President and Treasurer, PPL Corporation

Annual Meeting
Shareowners are invited to attend PPL Corporation's Annual Meeting on Wednesday, May 16, 2018, at the PPL Center, 701 Hamilton Street, Allentown, Pa. The meeting will begin at 9 a.m. Eastern time.

Stock Exchange Listing
PPL Corporation common stock is listed on the New York Stock Exchange (NYSE). The symbol is PPL. On March 16, 2018, the closing price per share was $28.12, and there were 55,200 shareowners of record.

2017

	High	Low	Dividends Declared
1st quarter	$37.95	$33.72	$0.395
2nd quarter	40.20	36.91	0.395
3rd quarter	39.90	37.19	0.395
4th quarter	38.55	30.74	0.395

2016

	High	Low	Dividends Declared
1st quarter	$38.09	$32.18	$0.38
2nd quarter	39.92	36.14	0.38
3rd quarter	37.88	33.52	0.38
4th quarter	35.07	32.08	0.38

The company has paid cash dividends on its common stock in every quarter since 1946. The annualized dividend was $1.58 per share in 2017 and $1.52 per share in 2016. On February 22, 2018, PPL declared a quarterly dividend of $0.41 per share (equivalent to $1.64 annualized), effective with the dividend paid April 2, 2018, to shareowners of record on March 9, 2018.

Dividend Calendar
Subject to the declaration of dividends on PPL Common Stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The record dates for dividends for the balance of 2018 are expected to be June 8, September 10 and December 10.

PPL's Website: www.pplweb.com
Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website may subscribe to receive automated email alerts for SEC filings, earnings news releases, daily stock prices and other financial news.

Financial reports, which are available at www.pplweb.com, will be mailed without charge upon request by contacting:

PPL Treasury Dept.
Two North Ninth Street Allentown, PA 18101
Email: invserv@pplweb.com
Telephone: PPL Corporate Offices, 610-774-5151, or
EQ Shareowner Services, 1-800-345-3085

Lost Dividend Checks
Dividend checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Direct Stock Purchase and Dividend Reinvestment Plan (Plan)
PPL offers investors the opportunity to invest up to $25,000 per calendar month to acquire shares of PPL common stock through its Plan. Shareowners may choose to have their dividends fully or partially reinvested in PPL common stock, or to receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System
PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Online Account Access
Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Shareowner Inquiries, Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Toll-free: 1-800-345-3085
Outside U.S.: 1-651-450-4064
Website: shareowneronline.com

Corporate Offices
PPL Corporation
Two North Ninth Street
Allentown, PA 18101
610-774-5151

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PPL Corporation Two North Ninth Street, Allentown PA 18101-1179 www.pplweb.com