LG&E KU

PPL companies

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

**LG&E and KU Energy LLC**
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Rick E. Lovekamp
Manager - Regulatory Affairs/Tariffs
T 502-627-3780
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June 30, 2016

RECEIVED
JUN 30 2016
PUBLIC SERVICE COMMISSION

**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 Executive Director:

Pursuant to the Commission's Order dated September 30, 2010 in the aforementioned case, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), (collectively, the "Companies") submit the Companies' Annual Accounting Information Filing in compliance with the reporting requirements specified in Appendix C, Commitment No. 1.

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

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

# Louisville Gas and Electric Company

# Kentucky Utilities Company

RECEIVED
JUN 30 2016
PUBLIC SERVICE
COMMISSION

# Annual Accounting Information Filing

# Pursuant to Case No. 2010-00204

## Year Ended December 31, 2015

## Filed June 2016

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# QUARTERLY AND ANNUAL FINANCIAL REPORTS FOR 2014

During 2015 and 2016, the Companies filed the 2015 PPL Corporation Annual Report and all of the Securities and Exchange Commission ("SEC") Form 10-Q's and 10-K reports as they were completed. The details of the filings are as follows:

| Financial Report | Period Ending | Securities Exchange Commission Filing Date | Kentucky Public Service Commission Filing Date |
|---|---|---|---|
| SEC Form 10-Q | March 31, 2015 | April 29, 2015 | May 8, 2015 |
| SEC Form 10-Q | June 30, 2015 | August 3, 2015 | August 4, 2015 |
| SEC Form 10-Q | September 30, 2015 | October 30, 2015 | November 2, 2015 |
| SEC Form 10-K | December 31, 2015 | February 19, 2016 | February 22, 2016 |
| PPL Corporation Annual Report | December 31, 2015 | N/A | April 19, 2016 |

# SEC Form 10-Q

# March 31, 2015

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

**FORM 10-Q**

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2015

OR

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

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| PPL Corporation | Common stock, $0.01 par value, 668,107,248 shares outstanding at April 30, 2015. |
| PPL Electric Utilities Corporation | Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 30, 2015. |
| LG&E and KU Energy LLC | PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC. |
| Louisville Gas and Electric Company | Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2015. |
| Kentucky Utilities Company | Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2015. |

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

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

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2015

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC. Beginning in the first quarter of 2015, PPL Energy Supply, LLC is filing a separate Form 10-Q.

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

# GLOSSARY OF TERMS AND ABBREVIATIONS

## *PPL Corporation and its subsidiaries*

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

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

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

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

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

***PPL Brunner Island*** - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

***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 Energy Supply, PPL Global and other subsidiaries.

***PPL EnergyPlus*** - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

***PPL Energy Supply*** - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

***PPL EU Services*** - PPL EU Services Corporation, a subsidiary of PPL that, beginning in 2015, provides support services and corporate functions such as financial, supply chain, human resources and information technology services primarily to PPL Electric and its affiliates.

***PPL Generation*** - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

***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 Montana*** - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

***PPL Montour*** - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

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

***PPL Susquehanna*** - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

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

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

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

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

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

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

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

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

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

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

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

## Other terms and abbreviations

**£** - British pound sterling.

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

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

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

***AEPS*** - Alternative Energy Portfolio Standard.

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

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

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

***Baseload generation*** - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

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

***Cane Run Unit 7*** - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

***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.

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

***CSAPR*** - Cross-State Air Pollution Rule.

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

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

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

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

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

***DRIP*** - Dividend Reinvestment and Direct Stock Purchase Plan.

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

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

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

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

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

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

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

***ERCOT*** - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

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

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

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

***FTRs*** - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

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

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

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

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

***Holdco*** - Talen Energy Holdings, Inc., a Delaware Corporation, which was formed for the purposes of the spinoff transaction.

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

***Intermediate and peaking generation*** - includes the output provided by PPL's oil- and natural gas-fired units.

***Ironwood Facility*** - a natural gas combined-cycle unit in Lebanon, Pennsylvania with a summer rating of 660 MW.

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

***ISO*** - Independent System Operator.

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

***LIBOR*** - London Interbank Offered Rate.

***MATS*** - Mercury and Air Toxics Standards.

***MDEQ*** - Montana Department of Environmental Quality.

***MEIC*** - Montana Environmental Information Center.

***MMBtu*** - One million British Thermal Units.

***Montana Power*** - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

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

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

***MWh*** - megawatt-hour, one thousand kilowatt-hours.

***NDT*** - PPL Susquehanna's nuclear plant decommissioning trust.

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

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

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

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

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

***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.

***Opacity*** - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

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

***PADEP*** - the Pennsylvania Department of Environmental Protection, a state government agency.

***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.

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

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

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

***RECs*** - Renewable Energy Credits.

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

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

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

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

***RJS Power*** - RJS Generation Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business to be contributed by its owners to Talen Energy other than the competitive power generation business to be contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

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

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

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

***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.

***SIFMA Index*** - the Securities Industry and Financial Markets Association Municipal Swap Index.

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

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

***SNCR*** - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

***Spark Spread*** - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

***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 future owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

***Tolling agreement*** - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

***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.

***TRA*** - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

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

***VaR*** - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

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

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

## FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2014 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- the effectiveness of our risk management techniques, including hedging;
- the effect on our operations and ability to comply with new statutory and regulatory requirements related to derivative financial instruments;
- our ability to attract and retain qualified employees;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;

- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions, including the anticipated formation of Talen Energy via the spinoff of PPL Energy Supply and subsequent combination with Riverstone's competitive generation business and our ability to realize expected benefits from such business transactions.

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

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

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

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

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Operating Revenues** | | |
| Utility | $ 2,214 | $ 2,162 |
| Unregulated wholesale energy | 521 | (1,457) |
| Unregulated retail energy | 310 | 348 |
| Energy-related businesses | 120 | 141 |
| Total Operating Revenues | 3,165 | 1,194 |
| **Operating Expenses** | | |
| Operation | | |
| Fuel | 604 | 758 |
| Energy purchases | 321 | (1,494) |
| Other operation and maintenance | 668 | 668 |
| Depreciation | 293 | 300 |
| Taxes, other than income | 101 | 101 |
| Energy-related businesses | 111 | 138 |
| Total Operating Expenses | 2,098 | 471 |
| **Operating Income** | 1,067 | 723 |
| Other Income (Expense) - net | 95 | (23) |
| Interest Expense | 247 | 262 |
| **Income from Continuing Operations Before Income Taxes** | 915 | 438 |
| Income Taxes | 268 | 114 |
| **Income from Continuing Operations After Income Taxes** | 647 | 324 |
| Income (Loss) from Discontinued Operations (net of income taxes) | | (8) |
| **Net Income** | $ 647 | $ 316 |
| **Earnings Per Share of Common Stock:** | | |
| Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners: | | |
| Basic | $ 0.97 | $ 0.51 |
| Diluted | $ 0.96 | $ 0.50 |
| Net Income Available to PPL Common Shareowners: | | |
| Basic | $ 0.97 | $ 0.50 |
| Diluted | $ 0.96 | $ 0.49 |
| **Dividends Declared Per Share of Common Stock** | $ 0.3725 | $ 0.3725 |
| **Weighted-Average Shares of Common Stock Outstanding (in thousands)** | | |
| Basic | 666,974 | 630,749 |
| Diluted | 668,732 | 663,939 |

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

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## PPL Corporation and Subsidiaries

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Net income** | **$ 647** | $ 316 |
| **Other comprehensive income (loss):** | | |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: | | |
| Foreign currency translation adjustments, net of tax of ($5), $1 | **(66)** | 131 |
| Available-for-sale securities, net of tax of ($6), ($6) | **5** | 5 |
| Qualifying derivatives, net of tax of $4, $25 | **6** | (46) |
| Defined benefit plans: | | |
| Net actuarial gain (loss), net of tax of $0, $0 | **(1)** | |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit): | | |
| Available-for-sale securities, net of tax of $1, $1 | **(1)** | (1) |
| Qualifying derivatives, net of tax of $4, ($4) | **(17)** | 19 |
| Equity investees' other comprehensive (income) loss, net of tax of $1, $0 | **(1)** | |
| Defined benefit plans: | | |
| Prior service costs, net of tax of $0, ($1) | | 1 |
| Net actuarial loss, net of tax of ($13), ($9) | **38** | 27 |
| **Total other comprehensive income (loss)** | **(37)** | 136 |
| **Comprehensive income (loss)** | **$ 610** | $ 452 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Cash Flows from Operating Activities** | | |
| Net income | $ 647 | $ 316 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 293 | 305 |
| Amortization | 57 | 60 |
| Defined benefit plans - expense | 28 | 21 |
| Deferred income taxes and investment tax credits | 124 | (26) |
| Unrealized (gains) losses on derivatives, and other hedging activities | (90) | 241 |
| Adjustment to WPD line loss accrual | | 65 |
| Stock compensation expense | 28 | 28 |
| Other | 4 | 5 |
| Change in current assets and current liabilities | | |
| Accounts receivable | (143) | (185) |
| Accounts payable | (139) | 93 |
| Unbilled revenues | 111 | (33) |
| Fuel, materials and supplies | 149 | 96 |
| Prepayments | (81) | (70) |
| Taxes payable | 44 | 126 |
| Other current liabilities | (172) | (59) |
| Other | 38 | 10 |
| Other operating activities | | |
| Defined benefit plans - funding | (271) | (135) |
| Other assets | (1) | (3) |
| Other liabilities | 47 | 76 |
| Net cash provided by operating activities | 673 | 931 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | (942) | (892) |
| Expenditures for intangible assets | (20) | (16) |
| Purchases of nuclear plant decommissioning trust investments | (43) | (32) |
| Proceeds from the sale of nuclear plant decommissioning trust investments | 38 | 27 |
| Proceeds from the receipt of grants | | 56 |
| Net (increase) decrease in restricted cash and cash equivalents | (10) | (334) |
| Other investing activities | (13) | 8 |
| Net cash provided by (used in) investing activities | (990) | (1,183) |
| **Cash Flows from Financing Activities** | | |
| Retirement of long-term debt | (1) | (239) |
| Issuance of common stock | 35 | 15 |
| Payment of common stock dividends | (250) | (234) |
| Net increase (decrease) in short-term debt | 133 | 878 |
| Other financing activities | (14) | (28) |
| Net cash provided by (used in) financing activities | (97) | 392 |
| **Effect of Exchange Rates on Cash and Cash Equivalents** | (2) | 14 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (416) | 154 |
| Cash and Cash Equivalents at Beginning of Period | 1,751 | 1,102 |
| Cash and Cash Equivalents at End of Period | $ 1,335 | $ 1,256 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,335 | $ 1,751 |
| Short-term investments | 135 | 120 |
| Restricted cash and cash equivalents | 190 | 180 |
| Accounts receivable (less reserve: 2015, $47; 2014, $46) | | |
| Customer | 1,104 | 923 |
| Other | 127 | 171 |
| Unbilled revenues | 621 | 735 |
| Fuel, materials and supplies | 687 | 836 |
| Prepayments | 168 | 87 |
| Deferred income taxes | 155 | 129 |
| Price risk management assets | 1,119 | 1,158 |
| Regulatory assets | 23 | 37 |
| Other current assets | 35 | 32 |
| Total Current Assets | 5,699 | 6,159 |
| **Investments** | | |
| Nuclear plant decommissioning trust funds | 965 | 950 |
| Other investments | 34 | 35 |
| Total Investments | 999 | 985 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | 30,852 | 30,568 |
| Less: accumulated depreciation - regulated utility plant | 5,413 | 5,361 |
| Regulated utility plant, net | 25,439 | 25,207 |
| Non-regulated property, plant and equipment | | |
| Generation | 11,309 | 11,310 |
| Nuclear fuel | 749 | 624 |
| Other | 893 | 885 |
| Less: accumulated depreciation - non-regulated property, plant and equipment | 6,516 | 6,404 |
| Non-regulated property, plant and equipment, net | 6,435 | 6,415 |
| Construction work in progress | 3,085 | 2,975 |
| Property, Plant and Equipment, net | 34,959 | 34,597 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | 1,610 | 1,562 |
| Goodwill | 3,964 | 4,005 |
| Other intangibles | 920 | 925 |
| Price risk management assets | 437 | 319 |
| Other noncurrent assets | 333 | 312 |
| Total Other Noncurrent Assets | 7,264 | 7,123 |
| **Total Assets** | $ 48,921 | $ 48,864 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 1,595 | $ 1,466 |
| Long-term debt due within one year | 1,535 | 1,535 |
| Accounts payable | 1,128 | 1,356 |
| Taxes | 274 | 230 |
| Interest | 345 | 314 |
| Dividends | 249 | 249 |
| Price risk management liabilities | 1,073 | 1,126 |
| Regulatory liabilities | 109 | 91 |
| Other current liabilities | 909 | 1,076 |
| Total Current Liabilities | 7,217 | 7,443 |
| **Long-term Debt** | 18,772 | 18,856 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 4,627 | 4,450 |
| Investment tax credits | 157 | 159 |
| Price risk management liabilities | 333 | 252 |
| Accrued pension obligations | 1,457 | 1,756 |
| Asset retirement obligations | 739 | 739 |
| Regulatory liabilities | 987 | 992 |
| Other deferred credits and noncurrent liabilities | 596 | 589 |
| Total Deferred Credits and Other Noncurrent Liabilities | 8,896 | 8,937 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Equity** | | |
| Common stock - $0.01 par value (a) | 7 | 7 |
| Additional paid-in capital | 9,480 | 9,433 |
| Earnings reinvested | 6,860 | 6,462 |
| Accumulated other comprehensive loss | (2,311) | (2,274) |
| Total Equity | 14,036 | 13,628 |
| **Total Liabilities and Equity** | $ 48,921 | $ 48,864 |

(a) 780,000 shares authorized; 667,713 and 665,849 shares issued and outstanding at March 31, 2015 and December 31, 2014.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| **December 31, 2014** | 665,849 | $ 7 | $ 9,433 | $ 6,462 | $ (2,274) | $ 13,628 |
| Common stock issued | 1,864 | | 54 | | | 54 |
| Stock-based compensation | | | (7) | | | (7) |
| Net income | | | | 647 | | 647 |
| Dividends and dividend equivalents | | | | (249) | | (249) |
| Other comprehensive income (loss) | | | | | (37) | (37) |
| **March 31, 2015** | 667,713 | $ 7 | $ 9,480 | $ 6,860 | $ (2,311) | $ 14,036 |
| **December 31, 2013** | 630,321 | $ 6 | $ 8,316 | $ 5,709 | $ (1,565) | $ 12,466 |
| Common stock issued | 1,096 | | 30 | | | 30 |
| Stock-based compensation | | | 6 | | | 6 |
| Net income | | | | 316 | | 316 |
| Dividends and dividend equivalents | | | | (237) | | (237) |
| Other comprehensive income (loss) | | | | | 136 | 136 |
| **March 31, 2014** | 631,417 | $ 6 | $ 8,352 | $ 5,788 | $ (1,429) | $ 12,717 |

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

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Operating Revenues** | **$ 630** | $ 592 |
| **Operating Expenses** | | |
| Operation | | |
| Energy purchases | **227** | 189 |
| Energy purchases from affiliate | **9** | 27 |
| Other operation and maintenance | **133** | 134 |
| Depreciation | **51** | 45 |
| Taxes, other than income | **35** | 32 |
| Total Operating Expenses | **455** | 427 |
| **Operating Income** | **175** | 165 |
| Other Income (Expense) - net | **2** | 2 |
| Interest Expense | **31** | 29 |
| **Income Before Income Taxes** | **146** | 138 |
| Income Taxes | **59** | 53 |
| **Net Income (a)** | **$ 87** | $ 85 |

(a) Net income approximates comprehensive income.

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

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

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 87** | $ 85 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **51** | 45 |
| Amortization | **6** | 4 |
| Defined benefit plans - expense | **4** | 3 |
| Deferred income taxes and investment tax credits | **5** | 25 |
| Other | **(3)** | (14) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(73)** | (107) |
| Accounts payable | **(39)** | 22 |
| Prepayments | **(60)** | (61) |
| Other | **(6)** | (1) |
| Other operating activities | | |
| Defined benefit plans - funding | **(33)** | (19) |
| Other assets | **(1)** | 4 |
| Other liabilities | **17** | 10 |
| Net cash provided by (used in) operating activities | **(45)** | (4) |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(224)** | (201) |
| Net (increase) decrease in notes receivable from affiliates | | 150 |
| Other investing activities | **(1)** | 9 |
| Net cash provided by (used in) investing activities | **(225)** | (42) |
| **Cash Flows from Financing Activities** | | |
| Retirement of long-term debt | | (10) |
| Contributions from parent | **50** | 65 |
| Payment of common stock dividends to parent | **(44)** | (32) |
| Net increase (decrease) in short-term debt | **85** | 40 |
| Net cash provided by (used in) financing activities | **91** | 63 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(179)** | 17 |
| Cash and Cash Equivalents at Beginning of Period | **214** | 25 |
| Cash and Cash Equivalents at End of Period | **$ 35** | $ 42 |

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

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **35** | $ 214 |
| Accounts receivable (less reserve: 2015, $17; 2014, $17) | | |
| Customer | **403** | 312 |
| Other | **27** | 44 |
| Unbilled revenues | **115** | 113 |
| Materials and supplies | **38** | 43 |
| Prepayments | **70** | 10 |
| Deferred income taxes | **66** | 58 |
| Regulatory assets | **3** | 12 |
| Other current assets | **12** | 13 |
| Total Current Assets | **769** | 819 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **7,717** | 7,589 |
| Less: accumulated depreciation - regulated utility plant | **2,555** | 2,517 |
| Regulated utility plant, net | **5,162** | 5,072 |
| Construction work in progress | **837** | 738 |
| Property, Plant and Equipment, net | **5,999** | 5,810 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **891** | 897 |
| Intangibles | **237** | 235 |
| Other noncurrent assets | **25** | 24 |
| Total Other Noncurrent Assets | **1,153** | 1,156 |
| **Total Assets** | $ **7,921** | $ 7,785 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | **$ 85** | |
| Long term debt due within one year | **100** | $ 100 |
| Accounts payable | **301** | 325 |
| Accounts payable to affiliates | **70** | 70 |
| Taxes | **90** | 85 |
| Interest | **26** | 34 |
| Regulatory liabilities | **85** | 76 |
| Other current liabilities | **80** | 103 |
| Total Current Liabilities | **837** | 793 |
| **Long-term Debt** | **2,503** | 2,502 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **1,497** | 1,483 |
| Accrued pension obligations | **182** | 212 |
| Regulatory liabilities | **26** | 18 |
| Other deferred credits and noncurrent liabilities | **66** | 60 |
| Total Deferred Credits and Other Noncurrent Liabilities | **1,771** | 1,773 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Equity** | | |
| Common stock - no par value (a) | **364** | 364 |
| Additional paid-in capital | **1,653** | 1,603 |
| Earnings reinvested | **793** | 750 |
| Total Equity | **2,810** | 2,717 |
| **Total Liabilities and Equity** | **$ 7,921** | $ 7,785 |

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

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

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

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Total |
|---|---|---|---|---|---|
| **December 31, 2014** | 66,368 | $ 364 | $ 1,603 | $ 750 | $ 2,717 |
| Net income | | | | 87 | 87 |
| Capital contributions from PPL | | | 50 | | 50 |
| Cash dividends declared on common stock | | | | (44) | (44) |
| **March 31, 2015** | 66,368 | $ 364 | $ 1,653 | $ 793 | $ 2,810 |
| **December 31, 2013** | 66,368 | $ 364 | $ 1,340 | $ 645 | $ 2,349 |
| Net income | | | | 85 | 85 |
| Capital contributions from PPL | | | 65 | | 65 |
| Cash dividends declared on common stock | | | | (32) | (32) |
| **March 31, 2014** | 66,368 | $ 364 | $ 1,405 | $ 698 | $ 2,467 |

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

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| **Operating Revenues** | **$ 899** | $ 934 |
| **Operating Expenses** | | |
| Operation | | |
| Fuel | **253** | 277 |
| Energy purchases | **92** | 124 |
| Other operation and maintenance | **209** | 206 |
| Depreciation | **95** | 86 |
| Taxes, other than income | **14** | 13 |
| Total Operating Expenses | **663** | 706 |
| **Operating Income** | **236** | 228 |
| Other Income (Expense) - net | **(1)** | (2) |
| Interest Expense | **42** | 42 |
| **Income Before Income Taxes** | **193** | 184 |
| Income Taxes | **76** | 69 |
| **Net Income (a)** | **$ 117** | $ 115 |

(a) Net income approximates comprehensive income.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 117** | $ 115 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **95** | 86 |
| Amortization | **6** | 6 |
| Defined benefit plans - expense | **11** | 8 |
| Deferred income taxes and investment tax credits | **75** | 74 |
| Other | **17** | (1) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(39)** | (39) |
| Accounts payable | **(18)** | 22 |
| Unbilled revenues | **32** | 36 |
| Fuel, materials and supplies | **71** | 53 |
| Income tax receivable | **134** | (11) |
| Taxes payable | **(11)** | (14) |
| Accrued interest | **37** | 36 |
| Other | **(21)** | (24) |
| Other operating activities | | |
| Defined benefit plans - funding | **(53)** | (38) |
| Other assets | **(6)** | 1 |
| Other liabilities | **4** | |
| Net cash provided by operating activities | **451** | 310 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(321)** | (272) |
| Net (increase) decrease in notes receivable from affiliates | | 66 |
| Other investing activities | **4** | |
| Net cash provided by (used in) investing activities | **(317)** | (206) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in notes payable with affiliates | **(1)** | |
| Net increase (decrease) in short-term debt | **(91)** | (45) |
| Distributions to member | **(23)** | (104) |
| Contributions from member | | 40 |
| Net cash provided by (used in) financing activities | **(115)** | (109) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **19** | (5) |
| Cash and Cash Equivalents at Beginning of Period | **21** | 35 |
| Cash and Cash Equivalents at End of Period | **$ 40** | $ 30 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **40** | $ 21 |
| Accounts receivable (less reserve: 2015, $26; 2014, $25) | | |
| Customer | **268** | 231 |
| Other | **14** | 18 |
| Unbilled revenues | **135** | 167 |
| Fuel, materials and supplies | **239** | 311 |
| Prepayments | **23** | 28 |
| Income taxes receivable | **2** | 136 |
| Deferred income taxes | **21** | 16 |
| Regulatory assets | **20** | 25 |
| Other current assets | **6** | 3 |
| Total Current Assets | **768** | 956 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **10,069** | 10,007 |
| Less: accumulated depreciation - regulated utility plant | **1,049** | 1,067 |
| Regulated utility plant, net | **9,020** | 8,940 |
| Other, net | **4** | 5 |
| Construction work in progress | **1,672** | 1,559 |
| Property, Plant and Equipment, net | **10,696** | 10,504 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **719** | 665 |
| Goodwill | **996** | 996 |
| Other intangibles | **161** | 174 |
| Other noncurrent assets | **103** | 101 |
| Total Other Noncurrent Assets | **1,979** | 1,936 |
| **Total Assets** | $ **13,443** | $ 13,396 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 484 | $ 575 |
| Long-term debt due within one year | 900 | 900 |
| Notes payable with affiliates | 40 | 41 |
| Accounts payable | 350 | 399 |
| Accounts payable to affiliates | 3 | 2 |
| Customer deposits | 52 | 52 |
| Taxes | 25 | 36 |
| Price risk management liabilities | 5 | 5 |
| Price risk management liabilities with affiliates | 122 | 66 |
| Regulatory liabilities | 24 | 15 |
| Interest | 60 | 23 |
| Other current liabilities | 115 | 131 |
| Total Current Liabilities | 2,180 | 2,245 |
| **Long-term Debt** | 3,667 | 3,667 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 1,324 | 1,241 |
| Investment tax credits | 130 | 131 |
| Accrued pension obligations | 256 | 305 |
| Asset retirement obligations | 266 | 274 |
| Regulatory liabilities | 961 | 974 |
| Price risk management liabilities | 47 | 43 |
| Other deferred credits and noncurrent liabilities | 270 | 268 |
| Total Deferred Credits and Other Noncurrent Liabilities | 3,254 | 3,236 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Member's equity** | 4,342 | 4,248 |
| **Total Liabilities and Equity** | $ 13,443 | $ 13,396 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | | Member's Equity |
|---|---|---|
| **December 31, 2014** | $ | 4,248 |
| Net income | | 117 |
| Distributions to member | | (23) |
| **March 31, 2015** | $ | 4,342 |
| | | |
| **December 31, 2013** | $ | 4,150 |
| Net income | | 115 |
| Contributions from member | | 40 |
| Distributions to member | | (104) |
| Other comprehensive income (loss) | | (1) |
| **March 31, 2014** | $ | 4,200 |

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

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

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Operating Revenues** | | |
| Retail and wholesale | $ 417 | $ 442 |
| Electric revenue from affiliate | 22 | 37 |
| Total Operating Revenues | 439 | 479 |
| **Operating Expenses** | | |
| Operation | | |
| Fuel | 103 | 117 |
| Energy purchases | 88 | 118 |
| Energy purchases from affiliate | 3 | 6 |
| Other operation and maintenance | 96 | 98 |
| Depreciation | 42 | 38 |
| Taxes, other than income | 7 | 6 |
| Total Operating Expenses | 339 | 383 |
| **Operating Income** | 100 | 96 |
| Other Income (Expense) - net | (1) | (2) |
| Interest Expense | 13 | 12 |
| **Income Before Income Taxes** | 86 | 82 |
| Income Taxes | 33 | 30 |
| **Net Income (a)** | $ 53 | $ 52 |

(a) Net income equals comprehensive income.

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

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

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 53 | $ 52 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 42 | 38 |
| Amortization | 3 | 3 |
| Defined benefit plans - expense | 4 | 2 |
| Deferred income taxes and investment tax credits | 31 | 6 |
| Other | 14 | (5) |
| Change in current assets and current liabilities | | |
| Accounts receivable | (16) | (18) |
| Accounts receivable from affiliates | 11 | (22) |
| Accounts payable | (15) | 14 |
| Accounts payable to affiliates | | (7) |
| Unbilled revenues | 18 | 22 |
| Fuel, materials and supplies | 56 | 44 |
| Income tax receivable | 74 | |
| Taxes payable | (7) | 21 |
| Accrued interest | 9 | 9 |
| Other | (3) | (4) |
| Other operating activities | | |
| Defined benefit plans - funding | (22) | (9) |
| Other assets | (1) | 1 |
| Other liabilities | | 2 |
| Net cash provided by operating activities | 251 | 149 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | (173) | (116) |
| Net cash provided by (used in) investing activities | (173) | (116) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in short-term debt | (48) | (5) |
| Payment of common stock dividends to parent | (23) | (27) |
| Net cash provided by (used in) financing activities | (71) | (32) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 7 | 1 |
| Cash and Cash Equivalents at Beginning of Period | 10 | 8 |
| Cash and Cash Equivalents at End of Period | $ 17 | $ 9 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **17** | $ 10 |
| Accounts receivable (less reserve: 2015, $2; 2014, $2) | | |
| Customer | **121** | 107 |
| Other | **9** | 11 |
| Unbilled revenues | **58** | 76 |
| Accounts receivable from affiliates | **13** | 23 |
| Fuel, materials and supplies | **105** | 162 |
| Prepayments | **7** | 8 |
| Income taxes receivable | | 74 |
| Regulatory assets | **12** | 21 |
| Other current assets | **5** | 1 |
| Total Current Assets | **347** | 493 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **4,016** | 4,031 |
| Less: accumulated depreciation - regulated utility plant | **398** | 456 |
| Regulated utility plant, net | **3,618** | 3,575 |
| Construction work in progress | **761** | 676 |
| Property, Plant and Equipment, net | **4,379** | 4,251 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **422** | 397 |
| Goodwill | **389** | 389 |
| Other intangibles | **91** | 97 |
| Other noncurrent assets | **36** | 35 |
| Total Other Noncurrent Assets | **938** | 918 |
| **Total Assets** | $ **5,664** | $ 5,662 |

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

# CONDENSED BALANCE SHEETS
## Louisville Gas and Electric Company

(Unaudited)

*(Millions of Dollars, shares in thousands)*

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 216 | $ 264 |
| Long-term debt due within one year | 250 | 250 |
| Accounts payable | 222 | 240 |
| Accounts payable to affiliates | 20 | 20 |
| Customer deposits | 25 | 25 |
| Taxes | 12 | 19 |
| Price risk management liabilities | 5 | 5 |
| Price risk management liabilities with affiliates | 61 | 33 |
| Regulatory liabilities | 14 | 10 |
| Interest | 15 | 6 |
| Other current liabilities | 37 | 42 |
| Total Current Liabilities | 877 | 914 |
| **Long-term Debt** | 1,103 | 1,103 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 735 | 700 |
| Investment tax credits | 36 | 36 |
| Accrued pension obligations | 34 | 57 |
| Asset retirement obligations | 64 | 66 |
| Regulatory liabilities | 454 | 458 |
| Price risk management liabilities | 47 | 43 |
| Other deferred credits and noncurrent liabilities | 110 | 111 |
| Total Deferred Credits and Other Noncurrent Liabilities | 1,480 | 1,471 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Stockholder's Equity** | | |
| Common stock - no par value (a) | 424 | 424 |
| Additional paid-in capital | 1,521 | 1,521 |
| Earnings reinvested | 259 | 229 |
| Total Equity | 2,204 | 2,174 |
| **Total Liabilities and Equity** | $ 5,664 | $ 5,662 |

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

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

# CONDENSED STATEMENTS OF EQUITY
## Louisville Gas and Electric Company

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | | Common stock | | Additional paid-in capital | | Earnings reinvested | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2014** | 21,294 | $ | 424 | $ | 1,521 | $ | 229 | $ | 2,174 |
| Net income | | | | | | | 53 | | 53 |
| Cash dividends declared on common stock | | | | | | | (23) | | (23) |
| **March 31, 2015** | 21,294 | $ | 424 | $ | 1,521 | $ | 259 | $ | 2,204 |
| | | | | | | | | | |
| **December 31, 2013** | 21,294 | $ | 424 | $ | 1,364 | $ | 172 | $ | 1,960 |
| Net income | | | | | | | 52 | | 52 |
| Cash dividends declared on common stock | | | | | | | (27) | | (27) |
| **March 31, 2014** | 21,294 | $ | 424 | $ | 1,364 | $ | 197 | $ | 1,985 |

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

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

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## CONDENSED STATEMENTS OF INCOME
## Kentucky Utilities Company

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Operating Revenues** | | |
| Retail and wholesale | $ 482 | $ 492 |
| Electric revenue from affiliate | 3 | 6 |
| Total Operating Revenues | 485 | 498 |
| **Operating Expenses** | | |
| Operation | | |
| Fuel | 150 | 160 |
| Energy purchases | 4 | 6 |
| Energy purchases from affiliate | 22 | 37 |
| Other operation and maintenance | 104 | 98 |
| Depreciation | 53 | 48 |
| Taxes, other than income | 7 | 7 |
| Total Operating Expenses | 340 | 356 |
| **Operating Income** | 145 | 142 |
| Other Income (Expense) - net | (1) | |
| Interest Expense | 19 | 19 |
| **Income Before Income Taxes** | 125 | 123 |
| Income Taxes | 47 | 46 |
| **Net Income (a)** | $ 78 | $ 77 |

(a) Net income approximates comprehensive income.

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

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

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 78 | $ 77 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 53 | 48 |
| Amortization | 3 | 3 |
| Defined benefit plans - expense | 3 | 2 |
| Deferred income taxes and investment tax credits | 43 | 34 |
| Other | 2 | 2 |
| Change in current assets and current liabilities | | |
| Accounts receivable | (25) | (24) |
| Accounts payable | 1 | 15 |
| Accounts payable to affiliates | (14) | 16 |
| Unbilled revenues | 14 | 14 |
| Fuel, materials and supplies | 15 | 9 |
| Income tax receivable | 60 | |
| Taxes payable | (1) | (12) |
| Accrued interest | 19 | 18 |
| Other | (5) | (9) |
| Other operating activities | | |
| Defined benefit plans - funding | (15) | (3) |
| Other assets | (3) | |
| Other liabilities | 1 | 1 |
| Net cash provided by operating activities | 229 | 191 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | (148) | (154) |
| Other investing activities | 4 | |
| Net cash provided by (used in) investing activities | (144) | (154) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in short-term debt | (43) | (40) |
| Payment of common stock dividends to parent | (30) | (37) |
| Contributions from parent | | 40 |
| Net cash provided by (used in) financing activities | (73) | (37) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 12 | |
| Cash and Cash Equivalents at Beginning of Period | 11 | 21 |
| Cash and Cash Equivalents at End of Period | $ 23 | $ 21 |

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

## CONDENSED BALANCE SHEETS
## Kentucky Utilities Company

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **23** | $ 11 |
| Accounts receivable (less reserve: 2015, $3; 2014, $2) | | |
| Customer | **147** | 124 |
| Other | **5** | 6 |
| Unbilled revenues | **77** | 91 |
| Fuel, materials and supplies | **134** | 149 |
| Prepayments | **7** | 10 |
| Income taxes receivable | | 60 |
| Regulatory assets | **8** | 4 |
| Other current assets | **11** | 4 |
| Total Current Assets | **412** | 459 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **6,053** | 5,976 |
| Less: accumulated depreciation - regulated utility plant | **651** | 611 |
| Regulated utility plant, net | **5,402** | 5,365 |
| Other, net | **1** | 1 |
| Construction work in progress | **908** | 880 |
| Property, Plant and Equipment, net | **6,311** | 6,246 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **297** | 268 |
| Goodwill | **607** | 607 |
| Other intangibles | **70** | 77 |
| Other noncurrent assets | **57** | 58 |
| Total Other Noncurrent Assets | **1,031** | 1,010 |
| **Total Assets** | $ **7,754** | $ 7,715 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 193 | $ 236 |
| Long-term debt due within one year | 250 | 250 |
| Accounts payable | 114 | 141 |
| Accounts payable to affiliates | 33 | 47 |
| Customer deposits | 27 | 27 |
| Taxes | 13 | 14 |
| Price risk management liabilities with affiliates | 61 | 33 |
| Regulatory liabilities | 10 | 5 |
| Interest | 30 | 11 |
| Other current liabilities | 48 | 41 |
| Total Current Liabilities | 779 | 805 |
| **Long-term Debt** | 1,841 | 1,841 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 933 | 884 |
| Investment tax credits | 94 | 95 |
| Accrued pension obligations | 44 | 59 |
| Asset retirement obligations | 202 | 208 |
| Regulatory liabilities | 507 | 516 |
| Other deferred credits and noncurrent liabilities | 101 | 101 |
| Total Deferred Credits and Other Noncurrent Liabilities | 1,881 | 1,863 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Stockholder's Equity** | | |
| Common stock - no par value (a) | 308 | 308 |
| Additional paid-in capital | 2,596 | 2,596 |
| Accumulated other comprehensive income (loss) | (1) | |
| Earnings reinvested | 350 | 302 |
| Total Equity | 3,253 | 3,206 |
| **Total Liabilities and Equity** | $ 7,754 | $ 7,715 |

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

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

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

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|
| **December 31, 2014** | 37,818 | $ 308 | $ 2,596 | $ 302 | | $ 3,206 |
| Net income | | | | 78 | | 78 |
| Cash dividends declared on common stock | | | | (30) | | (30) |
| Other comprehensive income (loss) | | | | | $ (1) | (1) |
| **March 31, 2015** | 37,818 | $ 308 | $ 2,596 | $ 350 | $ (1) | $ 3,253 |
| **December 31, 2013** | 37,818 | $ 308 | $ 2,505 | $ 230 | $ 1 | $ 3,044 |
| Net income | | | | 77 | | 77 |
| Capital contributions from LKE | | | 40 | | | 40 |
| Cash dividends declared on common stock | | | | (37) | | (37) |
| Other comprehensive income (loss) | | | | | (1) | (1) |
| **March 31, 2014** | 37,818 | $ 308 | $ 2,545 | $ 270 | $ | $ 3,123 |

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

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

# Combined Notes to Condensed Financial Statements (Unaudited)

## 1. Interim Financial Statements

*(All Registrants)*

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2014 is derived from that Registrant's 2014 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2014 Form 10-K. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2015 financial statements.

*(PPL)*

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Montana's hydroelectric generating facilities sold in the fourth quarter of 2014. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations.

## 2. Summary of Significant Accounting Policies

*(All Registrants)*

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2014 Form 10-K and should be read in conjunction with those disclosures.

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

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three months ended March 31, 2015, PPL Electric purchased $331 million of accounts receivable from unaffiliated third parties and $93 million from PPL EnergyPlus. During the three months ended March 31, 2014, PPL Electric purchased $362 million of accounts receivable from unaffiliated third parties and $105 million from PPL EnergyPlus.

### Depreciation *(PPL)*

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years. For the three months ended March 31, 2015, this change in useful lives resulted in lower depreciation of $20 million ($16 million after-tax or $0.02 per share).

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

Reporting of Discontinued Operations

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

The initial adoption of this guidance did not have a significant impact on the Registrants but will impact the amounts presented as discontinued operations and will enhance the related disclosure requirements related to future disposals or held for sale classifications.

## 3. Segment and Related Information

*(PPL)*

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

In June 2014, PPL and PPL Energy Supply, which substantially represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. The transaction is expected to occur on June 1, 2015. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 for additional information.

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

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| **Income Statement Data** | | |
| Revenues from external customers | | |
| U.K. Regulated | $ 697 | $ 648 |
| Kentucky Regulated | 899 | 934 |
| Pennsylvania Regulated | 630 | 591 |
| Supply (a) | 937 | (982) |
| Corporate and Other | 2 | 3 |
| Total | $ 3,165 | $ 1,194 |
| Intersegment electric revenues | | |
| Supply | $ 9 | $ 27 |
| Net Income | | |
| U.K. Regulated (a) | $ 375 | $ 206 |
| Kentucky Regulated | 109 | 107 |
| Pennsylvania Regulated | 87 | 85 |
| Supply (a) | 95 | (75) |
| Corporate and Other (b) | (19) | (7) |
| Total | $ 647 | $ 316 |

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Balance Sheet Data** | | |
| Assets | | |
| U.K. Regulated | $ 16,275 | $ 16,005 |
| Kentucky Regulated | 13,109 | 13,062 |
| Pennsylvania Regulated | 7,921 | 7,785 |
| Supply | 10,631 | 11,025 |
| Corporate and Other (c) | 985 | 987 |
| Total assets | $ 48,921 | $ 48,864 |

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) 2015 includes most of the transaction and transition costs related to the anticipated spinoff of PPL Energy Supply. See Note 8 for additional information.
(c) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

## 4. Earnings Per Share

*(PPL)*

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

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

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| **Income (Numerator)** | | |
| Income from continuing operations after income taxes | $ 647 | $ 324 |
| Less amounts allocated to participating securities | 3 | 2 |
| Income from continuing operations after income taxes available to PPL common shareowners - Basic | 644 | 322 |
| Plus interest charges (net of tax) related to Equity Units (a) | | 9 |
| Income from continuing operations after income taxes available to PPL common shareowners - Diluted | $ 644 | $ 331 |
| Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted | $ | $ (8) |
| Net income | $ 647 | $ 316 |
| Less amounts allocated to participating securities | 3 | 2 |
| Net income available to PPL common shareowners - Basic | 644 | 314 |
| Plus interest charges (net of tax) related to Equity Units (a) | | 9 |
| Net income available to PPL common shareowners - Diluted | $ 644 | $ 323 |
| **Shares of Common Stock (Denominator)** | | |
| Weighted-average shares - Basic EPS | 666,974 | 630,749 |
| Add incremental non-participating securities: | | |
| Share-based payment awards | 1,758 | 1,511 |
| Equity Units (a) | | 31,679 |
| Weighted-average shares - Diluted EPS | 668,732 | 663,939 |
| **Basic EPS** | | |
| Available to PPL common shareowners: | | |
| Income from continuing operations after income taxes | $ 0.97 | $ 0.51 |
| Income (loss) from discontinued operations (net of income taxes) | | (0.01) |
| Net Income Available to PPL common shareowners | $ 0.97 | $ 0.50 |
| **Diluted EPS** | | |
| Available to PPL common shareowners: | | |
| Income from continuing operations after income taxes | $ 0.96 | $ 0.50 |
| Income (loss) from discontinued operations (net of income taxes) | | (0.01) |
| Net Income Available to PPL common shareowners | $ 0.96 | $ 0.49 |

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

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

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| Stock-based compensation plans (a) | 1,445 | 1,096 |
| DRIP | 419 | |

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

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

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Stock options | 1,473 | 2,540 |
| Performance units | 146 | |
| Restricted stock units | | 123 |

## 5. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are:

*(PPL)*

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35% | $ 320 | $ 153 |
| Increase (decrease) due to: | | |
| State income taxes, net of federal income tax benefit | 25 | 3 |
| Valuation allowance adjustments | 3 | |
| Impact of lower U.K. income tax rates | (62) | (44) |
| U.S. income tax on foreign earnings - net of foreign tax credit | (1) | 11 |
| Intercompany interest on U.K. financing entities | (8) | (2) |
| Other | (9) | (7) |
| Total increase (decrease) | (52) | (39) |
| Total income taxes | $ 268 | $ 114 |

*(PPL Electric)*

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 51 | $ 48 |
| Increase (decrease) due to: | | |
| State income taxes, net of federal income tax benefit | 10 | 8 |
| Other | (2) | (3) |
| Total increase (decrease) | 8 | 5 |
| Total income taxes | $ 59 | $ 53 |

*(LKE)*

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 68 | $ 64 |
| Increase (decrease) due to: | | |
| State income taxes, net of federal income tax benefit | 7 | 7 |
| Valuation allowance adjustments | 3 | |
| Other | (2) | (2) |
| Total increase (decrease) | 8 | 5 |
| Total income taxes | $ 76 | $ 69 |

*(LG&E)*

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 30 | $ 29 |
| Increase (decrease) due to: | | |
| State income taxes, net of federal income tax benefit | 3 | 3 |
| Other | | (2) |
| Total increase (decrease) | 3 | 1 |
| Total income taxes | $ 33 | $ 30 |

*(KU)*

| | Three Months 2015 | Three Months 2014 |
|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 44 | $ 43 |
| Increase (decrease) due to: | | |
| State income taxes, net of federal income tax benefit | 4 | 4 |
| Other | (1) | (1) |
| Total increase (decrease) | 3 | 3 |
| Total income taxes | $ 47 | $ 46 |

## Other *(PPL)*

In February 2015, PPL and the IRS Appeals division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. The settlement was required to be reviewed and approved by the Joint Committee on Taxation (JCT) before it is considered final. In April 2015, PPL was notified that the JCT approved PPL's settlement. Subject to a final determination of interest on the refund, PPL expects to record a tax benefit in the range of $20 million to $30 million in the second quarter of 2015 related to the settlement of previously unrecognized tax benefits.

## 6. Utility Rate Regulation

*(All Registrants)*

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

| | PPL | | PPL Electric | |
|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Current Regulatory Assets: | | | | |
| Environmental cost recovery | $ 10 | $ 5 | | |
| Gas supply clause | 1 | 15 | | |
| Fuel adjustment clause | 4 | 4 | | |
| Transmission service charge | | 6 | | $ 6 |
| Other | 8 | 7 | $ 3 | 6 |
| Total current regulatory assets | $ 23 | $ 37 | $ 3 | $ 12 |
| Noncurrent Regulatory Assets: | | | | |
| Defined benefit plans | $ 705 | $ 720 | $ 367 | $ 372 |
| Taxes recoverable through future rates | 317 | 316 | 317 | 316 |
| Storm costs | 116 | 124 | 42 | 46 |
| Unamortized loss on debt | 76 | 77 | 48 | 49 |
| Interest rate swaps | 182 | 122 | | |
| Accumulated cost of removal of utility plant | 117 | 114 | 117 | 114 |
| AROs | 87 | 79 | | |
| Other | 10 | 10 | | |
| Total noncurrent regulatory assets | $ 1,610 | $ 1,562 | $ 891 | $ 897 |
| Current Regulatory Liabilities: | | | | |
| Generation supply charge | $ 26 | $ 28 | $ 26 | $ 28 |
| Demand side management | 13 | 2 | | |
| Gas supply clause | 6 | 6 | | |
| Transmission formula rate | 49 | 42 | 49 | 42 |
| Storm damage expense | 7 | 3 | 7 | 3 |
| Gas line tracker | 2 | 3 | | |
| Other | 6 | 7 | 3 | 3 |
| Total current regulatory liabilities | $ 109 | $ 91 | $ 85 | $ 76 |
| Noncurrent Regulatory Liabilities: | | | | |
| Accumulated cost of removal of utility plant | $ 695 | $ 693 | | |
| Coal contracts (a) | 49 | 59 | | |
| Power purchase agreement - OVEC (a) | 90 | 92 | | |
| Net deferred tax assets | 25 | 26 | | |
| Act 129 compliance rider | 26 | 18 | $ 26 | $ 18 |
| Defined benefit plans | 16 | 16 | | |
| Interest rate swaps | 84 | 84 | | |
| Other | 2 | 4 | | |
| Total noncurrent regulatory liabilities | $ 987 | $ 992 | $ 26 | $ 18 |

| | LKE | | LG&E | | KU | |
|---|---|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Current Regulatory Assets: | | | | | | |
| Environmental cost recovery | $ 10 | $ 5 | $ 7 | $ 4 | $ 3 | $ 1 |
| Gas supply clause | 1 | 15 | 1 | 15 | | |
| Fuel adjustment clause | 4 | 4 | 4 | 2 | | 2 |
| Other | 5 | 1 | | | 5 | 1 |
| Total current regulatory assets | $ 20 | $ 25 | $ 12 | $ 21 | $ 8 | $ 4 |
| Noncurrent Regulatory Assets: | | | | | | |
| Defined benefit plans | $ 338 | $ 348 | $ 208 | $ 215 | $ 130 | $ 133 |
| Storm costs | 74 | 78 | 41 | 43 | 33 | 35 |
| Unamortized loss on debt | 28 | 28 | 18 | 18 | 10 | 10 |
| Interest rate swaps | 182 | 122 | 121 | 89 | 61 | 33 |
| AROs | 87 | 79 | 30 | 28 | 57 | 51 |
| Other | 10 | 10 | 4 | 4 | 6 | 6 |
| Total noncurrent regulatory assets | $ 719 | $ 665 | $ 422 | $ 397 | $ 297 | $ 268 |
| Current Regulatory Liabilities: | | | | | | |
| Demand side management | $ 13 | $ 2 | $ 5 | $ 1 | $ 8 | $ 1 |
| Gas supply clause | 6 | 6 | 6 | 6 | | |
| Gas line tracker | 2 | 3 | 2 | 3 | | |
| Other | 3 | 4 | 1 | | 2 | 4 |
| Total current regulatory liabilities | $ 24 | $ 15 | $ 14 | $ 10 | $ 10 | $ 5 |
| Noncurrent Regulatory Liabilities: | | | | | | |
| Accumulated cost of removal of utility plant | $ 695 | $ 693 | $ 304 | $ 302 | $ 391 | $ 391 |
| Coal contracts (a) | 49 | 59 | 21 | 25 | 28 | 34 |
| Power purchase agreement - OVEC (a) | 90 | 92 | 62 | 63 | 28 | 29 |
| Net deferred tax assets | 25 | 26 | 24 | 24 | 1 | 2 |
| Defined benefit plans | 16 | 16 | | | 16 | 16 |
| Interest rate swaps | 84 | 84 | 42 | 42 | 42 | 42 |
| Other | 2 | 4 | 1 | 2 | 1 | 2 |
| Total noncurrent regulatory liabilities | $ 961 | $ 974 | $ 454 | $ 458 | $ 507 | $ 516 |

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

## Regulatory Matters

U. K. Activities *(PPL)*

*RIIO-ED1*

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

*Ofgem Review of Line Loss Calculation*

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its liability by $65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. The liability at March 31, 2015 of $97 million will be refunded to customers from April 1, 2015 through March 31, 2019.

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

*Rate Case Proceedings*

On November 26, 2014, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates for LG&E's electric and gas operations and KU's electric operations. On April 20, 2015, LG&E and KU, and the other parties to the proceeding, filed a unanimous settlement agreement with the KPSC. Among other things, the proposed settlement provides for increases in the annual revenue requirements associated with KU base electric rates of $125 million and LG&E base gas rates of $7 million. The annual revenue requirement associated with base electric rates at LG&E will not increase. The settlement did not establish a specific return on equity with respect to the base rates, however an authorized 10% return on equity will be utilized in the ECR and GLT mechanisms. The settlement agreement provides for deferred recovery of costs associated with Green River Units 3 and 4 through their retirement. The new regulatory asset will be amortized over three years. The settlement also provides regulatory asset treatment for the difference between pension expense currently booked in accordance with LG&E and KU's pension accounting policy and such an expense using a 15 year amortization period for actuarial gains and losses. The proposed settlement remains subject to KPSC approval. If approved, the new rates and all elements of the settlement would be effective July 1, 2015.

Pennsylvania Activities *(PPL and PPL Electric)*

*Rate Case Proceeding*

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The proposal would result in a rate increase of 3.9% on a total bill basis and is expected to become effective on January 1, 2016. PPL Electric's application includes a request for an authorized return-on-equity of 10.95%. The application is based on a fully projected future test year of January 1, 2016 through December 31, 2016. PPL Electric cannot predict the outcome of this proceeding.

*Distribution System Improvement Charge (DSIC)*

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 distribution assets.

On March 31, 2015, PPL Electric filed a petition requesting a waiver of the DSIC cap of 5% of billed revenues and approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered after January 1, 2016. PPL Electric filed the petition concurrently with its 2015 rate case and is requesting that the PUC consolidate these two proceedings. PPL Electric cannot predict the outcome of this proceeding.

*Storm Damage Expense Rider (SDER)*

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

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

*Smart Meter Rider (SMR)*

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

Federal Matters

*FERC Wholesale Formula Rates (LKE and KU)*

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In addition, a tenth municipality which has a previously settled termination date of 2016 has given notice that it will transfer service in June 2015. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU and the terminating municipalities continue settlement discussions in this proceeding. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

## 7. Financing Activities

### Credit Arrangements and Short-term Debt

*(All Registrants)*

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

| | March 31, 2015 | | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|---|
| | Expiration Date | Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity | Borrowed | Letters of Credit and Commercial Paper Issued |
| **PPL** | | | | | | | |
| **U.K.** | | | | | | | |
| WPD Ltd. | | | | | | | |
| Syndicated Credit Facility | Dec. 2016 | £ 210 | £ 130 | | £ 80 | £ 103 | |
| WPD (South West) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 245 | | | 245 | | |
| WPD (East Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 300 | 147 | | 153 | 64 | |
| WPD (West Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 300 | | | 300 | | |
| Uncommitted Credit Facilities | | 65 | | £ 5 | 60 | | £ 5 |
| Total U.K. Credit Facilities (a) | | £ 1,120 | £ 277 | £ 5 | £ 838 | £ 167 | £ 5 |

| | | March 31, 2015 | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|---|
| | Expiration Date | Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity | Borrowed | Letters of Credit and Commercial Paper Issued |
| **U.S.** | | | | | | | |
| PPL Capital Funding | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | | $ 300 | | |
| Syndicated Credit Facility | Nov. 2018 | 300 | | | 300 | | |
| Bilateral Credit Facility | Mar. 2016 | 150 | | $ 32 | 118 | | $ 21 |
| Uncommitted Credit Facility | | 65 | | 1 | 64 | | 1 |
| Total PPL Capital Funding Credit Facilities | | $ 815 | | $ 33 | $ 782 | | $ 22 |
| PPL Energy Supply | | | | | | | |
| Syndicated Credit Facility (b) | Nov. 2017 | $ 3,000 | $ 600 | $ 267 | $ 2,133 | $ 630 | $ 121 |
| **PPL Electric** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | $ 86 | $ 214 | | $ 1 |
| **LKE** | | | | | | | |
| Syndicated Credit Facility (b) | Oct. 2018 | $ 75 | $ 75 | | | $ 75 | |
| **LG&E** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 500 | | $ 216 | $ 284 | | $ 264 |
| **KU** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 400 | | $ 193 | $ 207 | | $ 236 |
| Letter of Credit Facility | Oct. 2017 | 198 | | 198 | | | 198 |
| Total KU Credit Facilities | | $ 598 | | $ 391 | $ 207 | | $ 434 |

(a) WPD Ltd.'s amounts borrowed at March 31, 2015 and December 31, 2014 were USD-denominated borrowings of $200 million and $161 million, which bore interest at 1.87% and 1.86%. WPD (East Midlands) amounts borrowed at March 31, 2015 and December 31, 2014 were GBP-denominated borrowings which equated to $226 million and $100 million, which bore interest at 1.00% for both periods. At March 31, 2015, the unused capacity under the U.K. credit facilities was $1.3 billion.

(b) At March 31, 2015, PPL Energy Supply's and LKE's interest rates on outstanding borrowings were 2.12% and 1.68%. At December 31, 2014, PPL Energy Supply's and LKE's interest rates on outstanding borrowings were 2.05% and 1.67%.

*(PPL)*

PPL Energy Supply's Letter of Credit Facility and Uncommitted Credit Facilities that existed at December 31, 2014 have either expired or matured during the first quarter of 2015. Any previously issued letters of credit under these facilities were either terminated or reissued under the PPL Energy Supply Syndicated Credit Facility at March 31, 2015.

*(All Registrants)*

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

| | March 31, 2015 | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| | Weighted - Average Interest Rate | Capacity | Commercial Paper Issuances | Unused Capacity | Weighted - Average Interest Rate | Commercial Paper Issuances |
| PPL Electric | 0.57% | $ 300 | $ 85 | $ 215 | | |
| LG&E | 0.63% | 350 | 216 | 134 | 0.42% | $ 264 |
| KU | 0.62% | 350 | 193 | 157 | 0.49% | 236 |
| Total | | $ 1,000 | $ 494 | $ 506 | | $ 500 |

*(PPL)*

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, which provides PPL Energy Supply the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At March 31, 2015, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2019, but is subject to automatic one-year renewals under certain conditions. There were $88 million of secured obligations outstanding under this facility at March 31, 2015.

*(LKE)*

See Note 11 for discussion of intercompany borrowings.

*(PPL)*

### At-the-Market Stock Offering Program

On February 26, 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. During the period ended March 31, 2015, no sales of common stock under the equity distribution agreements were made.

### Distributions

In February 2015, PPL declared its quarterly common stock dividend, payable April 1, 2015, at 37.25 cents per share (equivalent to $1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

## 8. Acquisitions, Development and Divestitures

*(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 8 in the 2014 Form 10-K for additional information.

*(PPL)*

### Divestitures

#### Anticipated Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners a newly formed entity, Holdco, which at such time will own all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy. Immediately following the spinoff, Holdco will merge 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 will be contributed by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of required regulatory approvals from the NRC, FERC, DOJ and PUC, all of which were received by mid-April 2015. In addition, there must be available, subject to certain conditions, at least $1 billion of undrawn credit capacity under a revolving credit or similar facility of Talen Energy or one or more of its subsidiaries. Any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions at the time of the spinoff are excluded from this calculation.

In connection with the FERC approval, PPL and RJS Power agreed that within 12 months after closing of the transaction, Talen Energy will divest approximately 1,300 MW of generating assets in one of two groups of assets (from PPL Energy

Supply's existing portfolio, this includes either the Holtwood and Wallenpaupack hydroelectric facilities or the Ironwood facility), and limit PJM energy market offers from assets it would retain in the other group to cost-based offers.

On April 29, 2015, PPL's Board of Directors declared the distribution of Holdco to PPL's shareowners of record on May 20, 2015, with the spinoff to occur on June 1, 2015. Based on the number of shares of PPL common stock outstanding at April 29, 2015, the distribution ratio is expected to be approximately 0.125 shares of Talen common stock for each share of PPL common stock. The final ratio will be determined after the record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding.

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges for employee separation benefits were recorded. See Note 8 in the 2014 Form 10-K for additional information. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to be completed by the end of 2015. At March 31, 2015 and December 31, 2014, the recorded liabilities related to the separation benefits were $19 million and $30 million, which are included in "Other current liabilities" on the Balance Sheets.

Additional employee-related costs to be incurred primarily include accelerated stock-based compensation and pro-rated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL employees who have become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL estimates these additional costs will be in the range of $30 million to $40 million.

PPL recorded $6 million of third-party costs during the three months ended March 31, 2015 related to this transaction. Of these costs, $2 million were primarily for legal and accounting fees to facilitate the transaction, and are recorded in "Other Income (Expense) - net" on the Statement of Income. An additional $4 million of consulting and other costs were incurred to ready the new Talen Energy organization and reconfigure the remaining PPL service functions. These costs are recorded in "Other operation and maintenance" on the Statement of Income. PPL recorded $27 million of third-party costs in 2014 related to this transaction. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between $60 million and $70 million.

The assets and liabilities of PPL's Supply segment will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction, at which time the operations of the Supply segment will be classified as discontinued operations. At the close of the transaction, unamortized losses on PPL interest rate swaps recorded in AOCI and designated as hedges of PPL Energy Supply's future interest payments will be reclassified into earnings and reflected in discontinued operations. The amount of these unamortized losses deferred in AOCI at March 31, 2015 was $55 million after-tax.

In conducting its annual goodwill impairment assessment in the fourth quarter of 2014 for its Supply segment reporting unit, PPL determined that the estimated fair value of the Supply segment exceeded its carrying value and no impairment was recognized. PPL had not identified any indicators of impairment as of March 31, 2015, but cannot predict whether an impairment loss will be recorded at the spinoff date. An impairment loss would be recognized by PPL at the spinoff date if the aggregate carrying amount of the Supply segment's assets and liabilities exceed their aggregate fair value at that date and would be reflected in discontinued operations. Upon completion of this transaction, PPL will no longer have a Supply segment.

## Discontinued Operations

### Montana Hydro Sale

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

Following are the components of Discontinued Operations in the Statement of Income for the three months ended March 31.

| | 2014 |
|---|---|
| Operating revenues | $ 29 |
| Interest expense (a) | 2 |
| Income (loss) before income taxes (b) | (10) |
| Income (Loss) from Discontinued Operations (net of income taxes) (b) | (8) |

(a) Represents allocated interest expense based upon the discontinued operations share of the net assets of PPL Energy Supply.
(b) Includes an impairment charge related to the Kerr Dam Project. See Note 13 for additional information.

## Development

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

Construction activity is nearing completion and testing is in progress on the previously announced NGCC unit, Cane Run Unit 7, scheduled to be operational in the second quarter of 2015. On March 31, 2015, LG&E retired an older coal-fired generating unit at the Cane Run plant and anticipates retiring the remaining two coal-fired units at the Cane Run plant in the third quarter of 2015. There were no significant losses related to this retirement.

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

## 9. Defined Benefits

*(PPL, LKE and LG&E)*

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

| | Pension Benefits | | | | Other Postretirement Benefits | |
|---|---|---|---|---|---|---|
| | U.S. | | U.K. | | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **PPL** | | | | | | |
| Service cost | $ 32 | $ 26 | $ 20 | $ 18 | $ 4 | $ 3 |
| Interest cost | 59 | 59 | 79 | 88 | 7 | 8 |
| Expected return on plan assets | (79) | (74) | (131) | (130) | (7) | (6) |
| Amortization of: | | | | | | |
| Prior service cost | 2 | 5 | | | | |
| Actuarial (gain) loss | 25 | 7 | 39 | 33 | | |
| Net periodic defined benefit costs (credits) | $ 39 | $ 23 | $ 7 | $ 9 | $ 4 | $ 5 |
| **LKE** | | | | | | |
| Service cost | $ 7 | $ 6 | | | $ 1 | $ 1 |
| Interest cost | 17 | 17 | | | 2 | 2 |
| Expected return on plan assets | (22) | (20) | | | (1) | (1) |
| Amortization of: | | | | | | |
| Prior service cost | 2 | 1 | | | 1 | 1 |
| Actuarial (gain) loss | 8 | 3 | | | | |
| Net periodic defined benefit costs (credits) | $ 12 | $ 7 | | | $ 3 | $ 3 |
| **LG&E** | | | | | | |
| Interest cost | $ 3 | $ 4 | | | | |
| Expected return on plan assets | (5) | (5) | | | | |
| Amortization of: | | | | | | |
| Prior service cost | 1 | 1 | | | | |
| Actuarial (gain) loss | 3 | 1 | | | | |
| Net periodic defined benefit costs (credits) | $ 2 | $ 1 | | | | |

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

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

| | Three Months | |
| --- | --- | --- |
| | 2015 | 2014 |
| PPL Electric | $ 8 | $ 5 |
| LG&E | 3 | 2 |
| KU | 5 | 3 |

## 10. Commitments and Contingencies

*(PPL)*

All commitments and contingencies related to PPL Energy Supply and its subsidiaries will remain with PPL Energy Supply and its subsidiaries at the spinoff date without recourse, except as otherwise provided in the definitive agreements entered into in connection with the spinoff of Talen Energy.

### Energy Purchase Commitments

*(PPL Electric)*

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

### 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 (f) 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)*

Sierra Club Litigation

On March 6, 2013, the Sierra Club and MEIC filed a complaint in the U.S. District Court, District of Montana, Billings Division against PPL Montana and the other Colstrip Steam Electric Station (Colstrip) co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern and PacifiCorp. PPL Montana operates Colstrip on behalf of the co-owners. The complaint alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements and listed 39 separate claims for relief. The complaint requests injunctive relief and civil penalties on average of $36,000 per day per violation, including a request that the owners remediate environmental damage and that $100,000 of the civil penalties be used for beneficial mitigation projects.

In July 2013, the Sierra Club and MEIC filed an additional Notice of Intent to Sue, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act and, in September 2013, filed an amended complaint. The amended complaint dropped all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It did, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip owners filed a motion to dismiss the amended complaint in October 2013. In May 2014, the court dismissed the plaintiffs' independent Best Available Control Technology claims and their Prevention of Significant Deterioration (PSD) claims for three projects, but denied the owners' motion to dismiss the plaintiffs' other PSD claims on statute of limitation grounds. On August 27, 2014, the Sierra Club and MEIC filed a second amended complaint. This complaint includes the same causes of action articulated in the first amended complaint, but alleges those claims in regard to only eight projects at the plant between 2001 and 2013. On September 26, 2014, the Colstrip owners filed an answer to the second amended complaint. Discovery has been completed. In April 2015, the plaintiffs indicated they intend to pursue claims related to only four of the remaining projects. In January 2015, trial as to liability in this matter was rescheduled to November 16, 2015. A trial date with respect to remedies, if there is a finding of liability, has not been scheduled. PPL believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. PPL cannot predict the ultimate outcome of this matter at this time.

Notice of Intent to File Suit

In October 2014, PPL Energy Supply received a notice letter from the Chesapeake Bay Foundation (CBF) alleging violations of the Clean Water Act and Pennsylvania Clean Streams Law at the Brunner Island generation plant. The letter was sent to PPL Brunner Island and the PADEP and is intended to provide notice of the alleged violations and CBF's intent to file suit in Federal court after expiration of the 60 day statutory notice period. Among other things, the letter alleges that PPL Brunner Island failed to comply with the terms of its National Pollutant Discharge Elimination System permit and associated regulations related to the application of nutrient credits to the facility's discharges of nitrogen into the Susquehanna River. The letter also alleges that PADEP has failed to ensure that credits generated from nonpoint source pollution reduction activities that PPL Brunner Island applies to its discharges meet the eligibility and certification requirements under PADEP's nutrient trading program regulations. If a court-approved settlement cannot be reached, CBF plans to seek injunctive relief, monetary penalties, fees and costs of litigation. PPL cannot predict the outcome of this matter.

Proposed Legislation - Pacific Northwest

In the first quarter of 2015, legislation was proposed in the State of Oregon to eliminate, over time, the sale of electricity in Oregon from coal-fired generating facilities, and in the State of Washington to provide a means of cost recovery to utility owners of coal-fired generating facilities who commit to retire such facilities. Both proposals are in early stages of consideration and PPL cannot predict whether any legislation seeking to achieve the objectives of the Oregon or Washington legislation will be enacted. Were such legislation to be enacted as proposed, such laws, either individually or collectively, would not be expected to have a material adverse effect on PPL's financial condition or results of operation.

*(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 and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one of its Clean Air Act claims, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth Circuit issued an order granting appellate review regarding the above matter and such issues as may appropriately be presented by the parties and determined by the court. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and anticipates retiring the remaining two coal-fired units at the Cane Run plant in the third quarter of 2015.

Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, plus costs and attorney's fees. The parties have filed various cross-motions for summary judgment which are pending before the court. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant but believe the plant is operating in compliance with the permits.

**Regulatory Issues**

*(All Registrants)*

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

*(PPL and PPL Electric)*

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law (the Act) that PPL believes would intervene in the wholesale capacity market to create incentives for the development of new, in-state electricity generation facilities even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short-term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In February 2011, PPL and several other companies filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates the Supremacy and Commerce clauses of the U.S. Constitution and requesting relief barring implementation. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Third Circuit (Third Circuit) by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey (the Appellants). In September 2014, the Third Circuit affirmed the District Court's decision. In December 2014, the Appellants filed a petition for certiorari before the U.S. Supreme Court. In March 2015, the U.S. Supreme Court requested the U.S. Solicitor General to submit briefs expressing its views as to the issues raised in this case.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered (Order) three electric utilities in Maryland to enter into long-term contracts to support the construction of new electricity generating facilities in Maryland the intent of which, PPL believed, was to encourage the construction of new generation even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short-term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other companies filed a complaint in U.S. District Court (District Court) in Maryland challenging the Order on the grounds that it violates the Supremacy and Commerce clauses of the U.S. Constitution and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the District Court issued a decision finding the Order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) by CPV Power Development, Inc. and the State of Maryland (the Appellants). In June 2014, the Fourth Circuit affirmed the District Court's opinion and subsequently denied the Appellants' motion for rehearing. In December 2014, the Appellants filed a petition for certiorari before the U.S. Supreme Court. In March 2015, the U.S. Supreme Court requested the U.S. Solicitor General to submit briefs expressing its views as to the issues raised in this case.

Pacific Northwest Markets *(PPL)*

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid $75 thousand to resolve the City of Tacoma's $23 million claim. The settlement does not resolve the remaining claim outstanding by the City of Seattle for approximately $50 million. Hearings before a FERC Administrative Law Judge (ALJ) regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. In March 2014, the ALJ issued an initial decision denying the City of Seattle's complaint against PPL Montana. The initial decision is pending review by the FERC. In June 2015, the United States Court of Appeals for the Ninth Circuit will hold oral argument on an appeal from the FERC's October 2011 order setting out the remand process that FERC has followed from 2011 to the present.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL cannot estimate a range of reasonably possible losses, if any, related to this matter.

*(All Registrants)*

Electricity - Reliability Standards

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

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

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

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

In October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. In May 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC proposed standard was filed by NERC with FERC for approval in January 2014, and was approved in June 2014. The second type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events. This proposal was filed by NERC with FERC for approval by January 22, 2015 and is pending consideration by FERC. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

**Environmental Matters - Domestic**

*(All Registrants)*

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

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of 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.

*(All Registrants except PPL Electric)*

Air

*CSAPR*

The EPA's CSAPR addresses the interstate transport of fine particulates and ozone by regulating emissions of sulfur dioxide and nitrogen oxide. In accordance with an October 2014 U.S. Court of Appeals decision, CSAPR establishes interstate allowance trading programs for sulfur dioxide and nitrogen oxide emissions from fossil-fueled plants in two phases: Phase 1 commenced in January 2015 and Phase 2 commences in 2017. Sulfur dioxide emissions are subject to an annual trading program and nitrogen oxide emissions are subject to annual and ozone season programs. Oral arguments pertaining to outstanding challenges to the EPA's CSAPR were heard before the D.C. Circuit Court during February 2015.

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 impacts that are higher than anticipated.

*National Ambient Air Quality Standards*

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies (RACT). The PADEP is expected to finalize a RACT rule in 2015 requiring some fossil-fueled plants to operate at more stringent nitrogen oxide emission rates. The EPA proposed to further strengthen the ozone standard in November 2014, which could lead to further nitrogen oxide reductions, for PPL's fossil-fueled plants within the OTR. The EPA is under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another states' non-attainment. In January 2015, the EPA issued a policy memo to state agencies to facilitate the development of these plans for the 2008 standard, including modeling data defining state contributions. The implementation of such plans could have an impact on the structure and stringency of CSAPR Phase 2 reductions (discussed above), or it could lead to the development of a new ozone transport rule. Non-OTR states, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be determined at this time.

In 2010, the EPA finalized a new National Ambient Air Quality Standard 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 Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Pursuant to a consent decree between the EPA and Sierra Club approved on March 2, 2015, states are working to finalize designations for other areas by the 2017 or 2020 deadline depending on which designation methodology is used. PPL, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR (as discussed above), or the MATS, or the Regional Haze Rules (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as the operations were suspended and the plant was retired in March 2015. In addition, MDEQ recently submitted a request to the EPA for a determination that this area is in attainment. If the EPA agrees with this request, then the deadlines associated with non-attainment would be suspended.

In December 2012, the EPA issued final rules that tighten the annual National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and in May 2014 the D.C. Circuit Court upheld them. On January 15, 2015, the EPA published a final rule establishing area designations under the standard. Non-attainment areas in Pennsylvania and Kentucky were identified; however, EPA recently approved state implementation plan revisions for both states that improved these classifications. PPL Energy Supply, LG&E and KU plants in Pennsylvania and Kentucky will not be expected to make further reductions towards achieving attainment.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, PPL, LKE, LG&E and KU cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

### *MATS*

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, known as the MATS, with an effective date of April 16, 2012. The rule was challenged by industry groups and states and was upheld by the D.C. Circuit Court in April 2014. A group of states subsequently petitioned the U.S. Supreme Court to review this decision and on March 25, 2015, oral arguments were heard as to one issue - whether or not EPA unreasonably refused to consider costs when determining whether the MATS regulation was appropriate and necessary. A U.S. Supreme Court decision is expected by June 30, 2015. The rule provides for a three-year compliance deadline with the potential for one- and two-year extensions as provided under the statute. PPL, LKE, LG&E and KU have completed installation or upgrading of relevant environmental controls at affected plants or have received compliance extensions, as applicable.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's March 2015 retirement of one coal-fired generating unit at Cane Run and LG&E's and KU's anticipated retirement of remaining coal-fired electricity generating units located at Cane Run and Green River in 2015 and 2016 are in response to MATS and other environmental regulations. The retirement of these units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E or KU.

PPL believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants in Pennsylvania, the capital cost of which is not expected to be significant. PPL continues to analyze the potential impact of MATS on operating costs. With respect to PPL's Montana plants, modifications to the air pollution controls installed at Colstrip are required, the cost of which is not expected to be significant. Operations were suspended and the Corette plant was retired in March 2015 due to expected market conditions and the costs to comply with the MATS requirements.

PPL, LKE, LG&E and KU are conducting in-depth reviews of the EPA's amendments to the final rule and certain proposed corrections, none of which are currently expected to be significant.

### *Regional Haze and Visibility*

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze regulation has been the western U.S. As for the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could, in most instances, be utilized under state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, the EPA's determination is being challenged by environmental groups and others.

LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are required in the regional haze state implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to do so. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed stricter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply was meeting these stricter permit limits at Corette without any significant changes to operations, although other requirements have led to the suspension of operations and the retirement of Corette in March 2015 (see "MATS" discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit, oral argument was heard in May 2014, and the parties are awaiting a decision.

### *New Source Review (NSR)*

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. PPL, LKE, LG&E and KU received various EPA information requests in 2007 and

2009, but have received no further communications from the EPA related to those requests since providing their responses. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. The companies responded to the EPA and the matter remains open. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. The EPA requests remain an open matter. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. MDEQ formally suspended this request on June 6, 2014 in consideration of pending litigation (see "Legal Matters - Sierra Club Litigation" above). PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If any PPL subsidiary is found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, the subsidiary would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be material.

### *Trimble County Unit 2 Air Permit (PPL, LKE, LG&E and KU)*

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

### *Climate Change*

*(All Registrants)*

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate carbon dioxide emissions from new motor vehicles, in April 2010 the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of carbon dioxide emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014, the U.S. Supreme Court ruled that the EPA has the authority to regulate carbon dioxide emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in carbon dioxide emissions must comply with BACT permit limits for carbon dioxide if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing GHG emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the U.S. to prepare for the impacts of climate change. Requirements related to this Plan could affect the Registrants and others in the industry as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. As further described below, the EPA has proposed rules pursuant to this directive, which it expects to finalize in the second or third quarter of 2015. The EPA has also announced that it will develop a federal implementation plan which would apply to any states that fail to submit an acceptable state implementation plan. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act when the sources are already regulated under Section 112 is under challenge in the D.C. Circuit Court. Oral arguments were heard on April 16, 2015.

In January 2014, the EPA issued a revised proposal to regulate carbon dioxide emissions from new power plants. The revised proposal calls for separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

In June 2014, the EPA issued proposed regulations addressing carbon dioxide emissions from existing power plants. The existing plant proposal contains state-specific rate-based reduction goals and guidelines for the development, submission and implementation of state plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying EPA's broad interpretation and definition of the Best System of Emission Reduction resulting in stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the type of plan filed (single or multi state). PPL has analyzed the proposal and identified potential impacts and solutions in comments filed on December 1, 2014. PPL also submitted Supplemental Comments to FERC through EEI, advocating for reliability coordination and relief in response to technical conferences hosted by FERC on the reliability implications of implementing this rule. The regulation of carbon dioxide emissions from existing power plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

In June 2014, the EPA also proposed a regulation addressing carbon dioxide emissions from existing power plants that are modified or reconstructed. The Registrants, however, do not expect a significant impact from this rulemaking as there are no plans to modify or reconstruct their existing plants in a manner that would trigger the proposed requirements.

*(PPL)*

Based on the stringent GHG reduction requirements in the EPA's proposed rule for existing plants, and based on information gained from public input, the PADEP is no longer expecting to achieve all required GHG reductions by solely increasing efficiency at existing fossil-fuel plants and/or reducing their generation as set forth in the PADEP's April 10, 2014 white paper. In October 2014, the Governor of Pennsylvania signed into law Act 175 of 2014, requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's GHG rules for existing plants. The law includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

The MDEQ, at the request of the Governor of Montana, has issued a white paper outlining possible regulatory scenarios to implement the EPA's proposed GHG rule for existing plants, including a combination of increasing energy efficiency at coal-fired plants, adding more low- and zero-carbon generation, and carbon sequestration at Colstrip. The white paper was made public in September 2014 and the MDEQ has held public meetings to present the white paper and gather comments. Legislation drafted to require legislative approval of any related plan formulated by MDEQ was tabled.

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

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

*(All Registrants except PPL Electric)*

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in Comer v. Murphy Oil (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the U.S. Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit, and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. The Registrants cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

### *Renewable Energy Legislation*

*(PPL and PPL Electric)*

In Pennsylvania, House Bill 100 was introduced in February 2015, proposing to increase AEPS solar and Tier 1 targets. A similar bill is in the process of being introduced in the Senate (no bill number is available at this time). PPL and PPL Electric cannot predict the outcome of this legislative effort.

*(PPL)*

In New Jersey, a bill (S-1475) has been introduced to increase the current Renewable Portfolio Standard (RPS) to 30% from Class I sources by 2020. The chairman of the Senate Environmental Committee convened a workgroup to look at further changes to New Jersey's RPS law to enable New Jersey to meet emissions goals established in the state's Global Warming Response Act. A bill (S-2444) was subsequently introduced to mandate that 80% of New Jersey's electricity be generated from renewable resources by 2050. PPL cannot predict the outcome of this legislation.

*(All Registrants)*

The Registrants believe there are financial, regulatory and operational uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL cannot predict the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

## <u>Water/Waste</u>

*(All Registrants except PPL Electric)*

### *Coal Combustion Residuals (CCRs)*

On April 17, 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule will become effective on October 14, 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable through citizen suits. PPL expects that its plants using surface impoundments for management and disposal of CCRs or the past management of CCRs and continued use to manage waste waters will be most impacted by this rule. The rule's requirements for covered CCR impoundments and landfills include commencement or completion of closure activities generally between three and ten years from certain triggering events. PPL, LKE, LG&E and KU also anticipate incurring capital or operation and maintenance costs prior to that time to address other provisions of the rule, such as groundwater monitoring and disposal facility modifications, or to implement various compliance strategies.

PPL, LKE, LG&E and KU are reviewing the rule and are still evaluating its financial and operational impact. It is expected that these requirements will result in increases to existing AROs which will be recorded in the second quarter of 2015. PPL, LKE, LG&E and KU are not yet able to determine an estimate of the expected increases to the existing AROs. PPL, LKE, LG&E and KU believe relevant costs relating to this rule are subject to future rate recovery before the respective state regulatory agencies, or the FERC, as applicable.

### *Effluent Limitations Guidelines (ELGs) and Standards*

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities if finalized as proposed. The proposal contains alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued by the third or fourth quarter of 2015. At the present time, PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

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

In May 2011, LG&E submitted an application for a special waste landfill permit to handle CCRs generated at the Trimble County plant. In May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. In January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. LG&E has also applied for other necessary regulatory approvals including a dredge and fill permit from the U.S. Army Corps of Engineers, in which proceeding the EPA or the public have submitted certain comments to which LG&E and KU are responding. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until all permits are issued and any resulting legal challenges are concluded.

### *Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky*

*(All Registrants except PPL Electric)*

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, LKE, 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 respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

*(PPL)*

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to this facility.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC and the National Wildlife Federation. In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and the MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014, which were both denied in October 2014. Discovery is ongoing, and a bench trial is set for April 2016.

### *Clean Water Act 316(b) (All Registrants except PPL Electric)*

The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed considerable authority to make site-specific determinations under the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Mill Creek Unit 1 and Brunner Island (all units) are the only units expected to be impacted. PPL, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

*(All Registrants)*

*Waters of the United States (WOTUS)*

In April 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published a proposed rule defining WOTUS that could greatly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The EPA plans to make certain changes to the proposed regulation based on comments received. The U.S. House and Senate are considering legislation to block this regulation. Until a final rule is issued, the Registrants cannot predict the outcome of the pending rulemaking. A final rule is expected by summer 2015.

*Other Issues*

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in 2015. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

*(PPL)*

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) with the PADEP was signed, allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

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

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet 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 Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. In February 2015, oral arguments occurred in the appellate proceeding. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

<u>Superfund and Other Remediation</u> *(All Registrants)*

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

PPL Electric, LG&E and KU are remediating, have completed the remediation of, or are responding to agency inquiries regarding several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

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

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

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

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

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

### Other

Nuclear Insurance *(PPL)*

The Price-Anderson Act is a United States Federal law governing liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any U.S. licensed nuclear facility. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. At March 31, 2015, the liability limit per incident is $13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to $255 million per incident, payable at $38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. At March 31, 2015, facilities at the Susquehanna plant are insured against property damage losses up to $2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is $46 million at March 31, 2015. Effective April 1, 2015, this maximum assessment increased to $55 million. PPL Energy Supply has additional coverage that, under certain conditions, may reduce this exposure.

Guarantees and Other Assurances

*(All Registrants)*

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

*(PPL)*

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

*(All Registrants)*

The table below details guarantees provided as of March 31, 2015. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities", "Indemnification for sales of assets" and "Indemnification of lease termination and other divestitures." The total recorded liability at March 31, 2015 and December 31, 2014, was $37 million and $38 million for PPL and $19 million for LKE for both periods. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

| | | Exposure at March 31, 2015 | | Expiration Date |
|---|---|---|---|---|
| **PPL** | | | | |
| Indemnifications related to the WPD Midlands acquisition | | | (a) | |
| WPD indemnifications for entities in liquidation and sales of assets | $ | 11 | (b) | 2018 |
| WPD guarantee of pension and other obligations of unconsolidated entities | | 114 | (c) | |
| Indemnifications for sales of assets | | 1,150 | (d) | 2016 - 2025 |
| **PPL Electric** | | | | |
| Guarantee of inventory value | | 32 | (e) | 2017 |
| **LKE** | | | | |
| Indemnification of lease termination and other divestitures | | 301 | (f) | 2021 - 2023 |
| **LG&E and KU** | | | | |
| LG&E and KU guarantee of shortfall related to OVEC | | | (g) | |

(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. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 2015, 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) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. The maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits. The exposure at March 31, 2015 includes amounts related to the sale of the Montana Hydroelectric facilities. See Note 8 for additional information related to the sale.

(e) 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.

(f) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these WKE-related guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as government fines and penalties fall outside the cumulative cap. Another WKE-related LKE guarantee covers other indemnifications, has a term expiring in 2023, and a maximum exposure of $100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing a December 2012 order of the Henderson Circuit Court, confirming the arbitration award. In May 2014, the Court of Appeals issued an opinion affirming the lower court decision. LKE's indemnitee filed a Motion for Discretionary Review with the Kentucky Supreme Court in October 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. However, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE cannot predict the ultimate outcomes of indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

(g) 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 currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 13 in PPL's, LKE's, LG&E's and KU's 2014 Form 10-K for additional information on the OVEC power purchase contract.

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

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

## 11. Related Party Transactions

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

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been 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".

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when: (a) the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. PPL EnergyPlus does not have an established credit limit. At March 31, 2015, PPL EnergyPlus was not required to post collateral. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

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

### Support Costs *(All Registrants except PPL)*

PPL Services and LKS provide their respective PPL and LKE subsidiaries with administrative, management and support services. In 2015, PPL EU Services was formed to provide the majority of financial, supply chain, human resources and facilities management services primarily to PPL Electric. PPL Services will continue to provide certain corporate functions. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended March 31, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| PPL Electric from PPL Services | $ 30 | $ 41 |
| LKE from PPL Services | 4 | 4 |
| PPL Electric from PPL EU Services | 15 | |
| LG&E from LKS | 51 | 48 |
| KU from LKS | 56 | 53 |

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

### Intercompany Borrowings *(LKE)*

LKE maintains a $225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. At March 31, 2015 and December 31, 2014, $40 and $41 million were outstanding and were reflected in "Notes payable with affiliates" on the consolidated Balance Sheets. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at March 31, 2015 and December 31, 2014 were 1.67% and 1.65%. Interest on the revolving line of credit was not significant for the three months ended March 31, 2015 and 2014.

### 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. See Note 14 for additional information on intercompany derivatives.

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

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

## 12. Other Income (Expense) - net

*(PPL)*

The components of "Other Income (Expense) - net" for the periods ended March 31 were:

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| Other Income | | |
| Earnings on securities in NDT funds | $ 7 | $ 6 |
| Interest income | 1 | 1 |
| AFUDC - equity component | 4 | 3 |
| Miscellaneous | 5 | 2 |
| Total Other Income | 17 | 12 |
| Other Expense | | |
| Economic foreign currency exchange contracts (Note 14) | (88) | 24 |
| Charitable contributions | 5 | 7 |
| Spinoff of PPL Energy Supply transaction costs (Note 8) | 2 | |
| Miscellaneous | 3 | 4 |
| Total Other Expense | (78) | 35 |
| Other Income (Expense) - net | $ 95 | $ (23) |

*(All Registrants except PPL)*

The components of "Other Income (Expense) - net" for the three months ended March 31, 2015 and 2014 for PPL Electric, LKE, LG&E and KU were not significant.

## 13. Fair Value Measurements and Credit Concentration

*(All Registrants)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2015 and 2014, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2014 Form 10-K for information on the levels in the fair value hierarchy.

## Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

| | March 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| **PPL** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 1,335 | $ 1,335 | | | $ 1,751 | $ 1,751 | | |
| Short-term investments | 135 | 135 | | | 120 | 120 | | |
| Restricted cash and cash equivalents (a) | 231 | 231 | | | 224 | 224 | | |
| Price risk management assets: | | | | | | | | |
| Energy commodities | 1,298 | 2 | $ 1,136 | $ 160 | 1,318 | 6 | $ 1,171 | $ 141 |
| Foreign currency contracts | 209 | | 209 | | 130 | | 130 | |
| Cross-currency swaps | 49 | | 49 | | 29 | | 28 | 1 |
| Total price risk management assets | 1,556 | 2 | 1,394 | 160 | 1,477 | 6 | 1,329 | 142 |
| NDT funds: | | | | | | | | |
| Cash and cash equivalents | 20 | 20 | | | 19 | 19 | | |
| Equity securities | | | | | | | | |
| U.S. large-cap | 620 | 461 | 159 | | 611 | 454 | 157 | |
| U.S. mid/small-cap | 93 | 38 | 55 | | 89 | 37 | 52 | |
| Debt securities | | | | | | | | |
| U.S. Treasury | 97 | 97 | | | 99 | 99 | | |
| U.S. government sponsored agency | 8 | | 8 | | 9 | | 9 | |
| Municipality | 76 | | 76 | | 76 | | 76 | |
| Investment-grade corporate | 45 | | 45 | | 42 | | 42 | |
| Other | 3 | | 3 | | 3 | | 3 | |
| Receivables (payables), net | 3 | 1 | 2 | | 2 | | 2 | |
| Total NDT funds | 965 | 617 | 348 | | 950 | 609 | 341 | |
| Auction rate securities (b) | 10 | | | 10 | 10 | | | 10 |
| Total assets | $ 4,232 | $ 2,320 | $ 1,742 | $ 170 | $ 4,532 | $ 2,710 | $ 1,670 | $ 152 |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Energy commodities | $ 1,163 | $ 2 | $ 1,130 | $ 31 | $ 1,217 | $ 5 | $ 1,182 | $ 30 |
| Interest rate swaps | 235 | | 235 | | 156 | | 156 | |
| Foreign currency contracts | 6 | | 6 | | 2 | | 2 | |
| Cross-currency swaps | 2 | | 2 | | 3 | | 3 | |
| Total price risk management liabilities | $ 1,406 | $ 2 | $ 1,373 | $ 31 | $ 1,378 | $ 5 | $ 1,343 | $ 30 |
| **PPL Electric** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 35 | $ 35 | | | $ 214 | $ 214 | | |
| Restricted cash and cash equivalents (c) | 2 | 2 | | | 3 | 3 | | |
| Total assets | $ 37 | $ 37 | | | $ 217 | $ 217 | | |
| **LKE** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 40 | $ 40 | | | $ 21 | $ 21 | | |
| Cash collateral posted to counterparties (d) | 22 | 22 | | | 21 | 21 | | |
| Total assets | $ 62 | $ 62 | | | $ 42 | $ 42 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 174 | | $ 174 | | $ 114 | | $ 114 | |
| Total price risk management liabilities | $ 174 | | $ 174 | | $ 114 | | $ 114 | |
| **LG&E** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 17 | $ 17 | | | $ 10 | $ 10 | | |
| Cash collateral posted to counterparties (d) | 22 | 22 | | | 21 | 21 | | |
| Total assets | $ 39 | $ 39 | | | $ 31 | $ 31 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 113 | | $ 113 | | $ 81 | | $ 81 | |
| Total price risk management liabilities | $ 113 | | $ 113 | | $ 81 | | $ 81 | |

| | March 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| **KU** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 23 | $ 23 | | | $ 11 | $ 11 | | |
| Total assets | $ 23 | $ 23 | | | $ 11 | $ 11 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 61 | | $ 61 | | $ 33 | | $ 33 | |
| Total price risk management liabilities | $ 61 | | $ 61 | | $ 33 | | $ 33 | |

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

A reconciliation of net assets and liabilities classified as Level 3 for the three months ended March 31 is as follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | Energy Commodities, net | Auction Rate Securities | Cross-Currency Swaps | Total | Energy Commodities, net | Auction Rate Securities | Cross-Currency Swaps | Total |
| **PPL** | | | | | | | | |
| Balance at beginning of period | $ 111 | $ 10 | $ 1 | $ 122 | $ 24 | $ 19 | | $ 43 |
| Total realized/unrealized gains (losses) | | | | | | | | |
| Included in earnings | (17) | | | (17) | (135) | | | (135) |
| Included in OCI (a) | | | 6 | 6 | | | $ (1) | (1) |
| Sales | | | | | | (3) | | (3) |
| Settlements | 30 | | | 30 | 128 | | | 128 |
| Transfers into Level 3 | 4 | | | 4 | | | | |
| Transfers out of Level 3 | 1 | | (7) | (6) | | | 1 | 1 |
| Balance at end of period | $ 129 | $ 10 | $ | $ 139 | $ 17 | $ 16 | $ | $ 33 |

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

| | March 31, 2015 | | | |
|---|---|---|---|---|
| | Fair Value, net Asset (Liability) | Valuation Technique | Unobservable Input(s) | Range (Weighted Average) (a) |
| **PPL** | | | | |
| Energy commodities | | | | |
| Natural gas contracts (b) | $ 49 | Discounted cash flow | Proprietary model used to calculate forward prices | 11% - 100% (43%) |
| Power sales contracts (c) | 1 | Discounted cash flow | Proprietary model used to calculate forward prices | 10% - 100% (82%) |
| Heat rate options (e) | 79 | Discounted cash flow | Proprietary model used to calculate forward prices | 22% - 44% (40%) |
| Auction rate securities (f) | 10 | Discounted cash flow | Modeled from SIFMA Index | 41% - 69% (53%) |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Fair Value, net Asset (Liability) | Valuation Technique | Unobservable Input(s) | Range (Weighted Average) (a) |
| **PPL** | | | | |
| Energy commodities | | | | |
| Natural gas contracts (b) | $ 59 | Discounted cash flow | Proprietary model used to calculate forward prices | 11% - 100% (52%) |
| Power sales contracts (c) | (1) | Discounted cash flow | Proprietary model used to calculate forward prices | 10% - 100% (59%) |
| FTR purchase contracts (d) | 3 | Discounted cash flow | Historical settled prices used to model forward prices | 100% (100%) |
| Heat rate options (e) | 50 | Discounted cash flow | Proprietary model used to calculate forward prices | 23% - 51% (45%) |
| Auction rate securities (f) | 10 | Discounted cash flow | Modeled from SIFMA Index | 44% - 69% (63%) |
| Cross-currency swaps (g) | 1 | Discounted cash flow | Credit valuation adjustment | 15% (15%) |

(a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage change in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
(b) As the forward price of natural gas increases/(decreases), the fair value of purchase contracts increases/(decreases). As the forward price of natural gas increases/(decreases), the fair value of sales contracts (decreases)/increases.
(c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As volumetric assumptions for contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As volumetric assumptions for contracts in a loss position increase/(decrease), the fair value of the contracts (decreases)/increases.
(d) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
(e) The proprietary model used to calculate fair value incorporates market heat rates, correlations and volatilities. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).
(f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
(g) The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the three months ended are reported in the Statements of Income as follows:

| | Energy Commodities, net | | | | | |
|---|---|---|---|---|---|---|
| | Unregulated Wholesale Energy | | Unregulated Retail Energy | | Energy Purchases | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **PPL** | | | | | | |
| Total gains (losses) included in earnings | $ 21 | $ (89) | $ (40) | $ (63) | $ 2 | $ 17 |
| Change in unrealized gains (losses) relating to positions still held at the reporting date | 25 | (13) | (9) | (33) | 1 | 1 |

## Price Risk Management Assets/Liabilities - Energy Commodities *(PPL)*

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and other standard industry models. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, volumetric assumptions, implied volatilities, implied correlations, and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department. Accounting personnel interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy.

Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2015 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contracts.

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. For PPL, the primary reason for the transfers between Level 2 and Level 3 during 2015 and 2014 was the change in the significance of the credit valuation adjustment. Cross-currency swaps are valued by PPL's Treasury department. Accounting personnel interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

*(PPL)*

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.
- The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

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.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3.

Auction rate securities are valued by PPL's Treasury department. Accounting personnel interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

### Nonrecurring Fair Value Measurements *(PPL)*

The following nonrecurring fair value measurement occurred during the three months ended March 31, 2014, resulting in an asset impairment:

| | Carrying Amount (a) | Fair Value Measurements Using Level 3 | Loss (b) |
|---|---|---|---|
| **PPL** | | | |
| Kerr Dam Project | $ 47 | $ 29 | $ 18 |

(a) Represents carrying value before fair value measurement.
(b) The loss on the Kerr Dam Project was recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2014 Statement of Income.

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

| | Fair Value, net Asset (Liability) | Valuation Technique | Significant Unobservable Input(s) | Range (Weighted Average)(a) |
|---|---|---|---|---|
| Kerr Dam Project | | | | |
| March 31, 2014 | $ 29 | Discounted cash flow | Proprietary model used to calculate plant value | 38% (38%) |

(a) The range and weighted average represent the percentage of fair value derived from the unobservable inputs.

Kerr Dam Project

PPL Montana previously held a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes for the Kerr Dam Project is $18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a PPL proprietary model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be $29 million at March 31, 2014. The Kerr Dam Project was included in the sale of the Montana Hydroelectric facilities and the assets were removed from the Balance Sheet. See Note 8 for additional information.

The assets were valued by the PPL Energy Supply Financial Department. Accounting personnel interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

### 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.

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| PPL | $ 20,307 | $ 23,258 | $ 20,391 | $ 22,670 |
| PPL Electric | 2,603 | 3,084 | 2,602 | 2,990 |
| LKE | 4,567 | 5,091 | 4,567 | 4,946 |
| LG&E | 1,353 | 1,493 | 1,353 | 1,455 |
| KU | 2,091 | 2,396 | 2,091 | 2,313 |

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

## Credit Concentration Associated with Financial Instruments

*(All Registrants)*

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

*(PPL)*

At March 31, 2015, PPL had credit exposure of $692 million from energy trading partners, excluding the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to $402 million. The top ten counterparties including their affiliates accounted for $220 million, or 55%, of these exposures. Eight of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 75% of the top ten exposures. The remaining counterparties are rated below investment grade, but are current on their obligations.

*(PPL Electric)*

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved recovery mechanism is anticipated to substantially mitigate this exposure.

*(LKE, LG&E and KU)*

At March 31, 2015, LKE's, LG&E's and KU's credit exposure was not significant.

## 14. Derivative Instruments and Hedging Activities

## Risk Management Objectives

*(All Registrants)*

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, 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 and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

## 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, volumes of full-requirement sales contracts, basis exposure, interest rates and foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

| | PPL | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| Commodity price risk (including basis and volumetric risk) | X | M | M | M | M |
| Interest rate risk: | | | | | |
| Debt issuances | X | M | M | M | M |
| Defined benefit plans | X | M | M | M | M |
| NDT securities | X | | | | |
| Equity securities price risk: | | | | | |
| Defined benefit plans | X | M | M | M | M |
| NDT securities | X | | | | |
| Future stock transactions | X | | | | |
| Foreign currency risk - WPD investment and earnings | X | | | | |

X = PPL actively mitigates market risks through its risk management programs described above.
M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

*Commodity price risk*

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K.

- PPL is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.

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

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

*Interest rate risk*

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

*Equity securities price risk*

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

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

*Foreign currency risk*

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

### 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.

PPL is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

The majority of PPL's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases entered into by PPL Energy Supply. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

### Master Netting Arrangements

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

PPL's obligation to return counterparty cash collateral under master netting arrangements was $11 million at March 31, 2015 and December 31, 2014.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at March 31, 2015 and December 31, 2014.

PPL, LKE and LG&E posted $22 million and $21 million of cash collateral under master netting arrangements at March 31, 2015 and December 31, 2014.

PPL Electric and KU did not post any cash collateral under master netting arrangements at March 31, 2015 and December 31, 2014.

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

*(PPL)*

### Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's most significant risks due to the level of investment that PPL Energy Supply maintains in its competitive generation assets, as well as the extent of its marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 6,496 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,252 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL Energy Supply enters into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL Energy Supply segregates its non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. In 2015 and 2014, there were no active cash flow hedges and there was no hedge ineffectiveness associated with energy derivatives. At March 31, 2015, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $18 million. 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 periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. There were no such reclassifications for the three months ended March 31, 2015 and 2014.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. The derivative contracts in this category that existed at March 31, 2015 range in maturity through 2020.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the periods ended March 31 were as follows.

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| Operating Revenues | | |
| Unregulated wholesale energy | $ (92) | $ (789) |
| Unregulated retail energy | (13) | (26) |
| Operating Expenses | | |
| Fuel | | (1) |
| Energy purchases | 145 | 580 |

## Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities primarily in its geographic footprint. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in "Unregulated wholesale energy" on the Statements of Income, were insignificant for the three months ended March 31, 2015 and 2014.

## Commodity Volumes

At March 31, 2015, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

| Commodity | Unit of Measure | Volumes (a) 2015 (b) | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|
| Power | MWh | (30,874,062) | (8,521,382) | (248,329) | 2,236,333 |
| Capacity | MW-Month | (3,998) | (878) | 6 | 3 |
| Gas | MMBtu | 157,995,389 | 87,545,701 | 13,742,416 | 20,314,625 |
| FTRs | MW-Month | 532 | | | |
| Oil | Barrels | 300,328 | 387,429 | 257,483 | 60,000 |

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Represents balance of the current year.

## Interest Rate Risk

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

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

### Cash Flow Hedges

*(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At March 31, 2015, PPL held an aggregate notional value in interest rate swap contracts of $1.6 billion that range in maturity through 2045. The amount outstanding includes swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses on the LG&E and KU 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 will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded.

At March 31, 2015, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $1.3 billion that range in maturity from 2016 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2015, PPL had no hedge ineffectiveness associated with interest rate derivatives and an insignificant amount for the three months ended March 31, 2014.

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 probable of not occurring. PPL had no such reclassifications for the three months ended March 31, 2015 associated with discontinued cash flow hedges and an insignificant amount reclassified for the three months ended March 31, 2014.

At March 31, 2015, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(13) million. In addition, see Note 8 for unamortized losses on PPL interest rate swaps expected to be reclassified into earnings and reflected in discontinued operations at the close of the spinoff transaction. Amounts are reclassified as the hedged interest expense is recorded.

*(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL that have terms identical to forward-starting swaps entered into by PPL with third parties. Realized gains and losses on all of these 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 will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded. At March 31, 2015, the total notional amount of forward starting interest rate swaps outstanding was $1 billion (LG&E and KU each held contracts of $500 million). The swaps range in maturity through 2045.

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

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At March 31, 2015, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033.

### Foreign Currency Risk

*(PPL)*

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

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2015 had a notional amount of £217 million (approximately $355 million based on contracted rates). The settlement dates of these contracts range from May 2015 through June 2016.

At March 31, 2015, PPL had $24 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to $14 million at December 31, 2014.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2015, the total exposure hedged by PPL was approximately £1.3 billion (approximately $2.1 billion based on contracted rates). These contracts had termination dates ranging from April 2015 through March 2017.

### 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 Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for 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 currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2015 and December 31, 2014. PPL Energy Supply has many physical and financial commodity purchases and sales contracts that economically hedge commodity price risk but do not receive hedge accounting treatment. As such, realized and unrealized gains (losses) on these contracts are recorded currently in earnings. Generally each contract is considered a unit of account and PPL presents gains (losses) on physical and financial commodity sales contracts in "Unregulated wholesale energy" or "Unregulated retail energy" and (gains) losses on physical and financial commodity purchase contracts in "Fuel" or "Energy purchases" on the Statements of Income. Certain of the economic hedging strategies employed by PPL Energy Supply utilize a combination of financial purchases and sales contracts which are similarly reported gross as an expense and revenue, respectively, on PPL's Statements of Income. PPL records realized hourly net sales or purchases of physical power with PJM in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

See Notes 1 and 17 in each Registrant's 2014 Form 10-K for additional information on accounting policies related to derivative instruments.

*(PPL)*

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

| | March 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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) | | $ 160 | | $ 5 | | $ 94 | | $ 5 |
| Cross-currency swaps (b) | $ 1 | 2 | | | | 3 | | |
| Foreign currency contracts | 24 | | $ 106 | 2 | $ 12 | | $ 67 | |
| Commodity contracts | | | 988 | 904 | | | 1,079 | 1,024 |
| Total current | 25 | 162 | 1,094 | 911 | 12 | 97 | 1,146 | 1,029 |
| Noncurrent: | | | | | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | | | | | |
| Interest rate swaps (b) | | 23 | | 47 | | 14 | | 43 |
| Cross-currency swaps (b) | 48 | | | | 29 | | | |
| Foreign currency contracts | 10 | | 69 | 4 | 5 | | 46 | 2 |
| Commodity contracts | | | 310 | 259 | | | 239 | 193 |
| Total noncurrent | 58 | 23 | 379 | 310 | 34 | 14 | 285 | 238 |
| Total derivatives | $ 83 | $ 185 | $ 1,473 | $ 1,221 | $ 46 | $ 111 | $ 1,431 | $ 1,267 |

(a) Represents the location on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

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

| Derivative Relationships | Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2015 | 2014 | Location of Gain (Loss) Recognized in Income on Derivative | 2015 Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | 2015 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | 2014 Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | 2014 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|---|---|---|---|---|---|---|
| Cash Flow Hedges: | | | | | | | |
| Interest rate swaps | $ (19) | $ (46) | Interest expense | $ (4) | | $ (5) | $ 2 |
| Cross-currency swaps | 21 | (25) | Interest expense | 1 | | | |
| | | | Other income (expense) - net | 17 | | (29) | |
| Commodity contracts | | | Unregulated wholesale energy | (2) | | (1) | |
| | | | Energy purchases | 8 | | 7 | |
| | | | Depreciation | 1 | | 1 | |
| | | | Discontinued operations | | | 2 | |
| Total | $ 2 | $ (71) | | $ 21 | | $ (25) | $ 2 |
| | | | | | | | |
| Net Investment Hedges: | | | | | | | |
| Foreign currency contracts | $ 16 | $ (4) | | | | | |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | 2015 | 2014 |
|---|---|---|---|
| Foreign currency contracts | Other income (expense) - net | $ 88 | $ (24) |
| Interest rate swaps | Interest expense | (2) | (2) |
| Commodity contracts | Unregulated wholesale energy (a) | (229) | (3,042) |
| | Unregulated retail energy | (39) | (64) |
| | Fuel | (3) | (1) |
| | Energy purchases (b) | 196 | 2,364 |
| | Discontinued operations | | (2) |
| | Total | $ 11 | $ (771) |

| Derivatives Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets- noncurrent | $ (56) | |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (4) | $ (4) |

(a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.
(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

*(LKE)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 122 | | $ 66 |

(a) Represents the location on the Balance Sheets.

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

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (56) | |

*(LG&E)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 61 | | $ 33 |

(a) Represents the location on the Balance Sheets.

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

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (28) | |

*(KU)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 61 | | $ 33 |

(a) Represents the location on the Balance Sheets.

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

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (28) | |

*(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.

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 5 | | $ 5 |
| Total current | | 5 | | 5 |
| Noncurrent: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | 47 | | 43 |
| Total noncurrent | | 47 | | 43 |
| Total derivatives | | $ 52 | | $ 48 |

(a) Represents the location on the Balance Sheets.

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

| Derivative Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Interest expense | $ (2) | $ (2) |

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | 2015 | 2014 |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (4) | $ (4) |

*(All Registrants except PPL Electric)*

## Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit a FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade 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 setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

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

| | Assets | | | | Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | | Eligible for Offset | | | | Eligible for Offset | | |
| | Gross | Derivative Instruments | Cash Collateral Received | Net | Gross | Derivative Instruments | Cash Collateral Pledged | Net |
| **March 31, 2015** | | | | | | | | |
| **PPL** | | | | | | | | |
| Energy Commodities | $ 1,298 | $ 990 | $ 11 | $ 297 | $ 1,163 | $ 990 | $ 49 | $ 124 |
| Treasury Derivatives | 258 | 105 | | 153 | 243 | 105 | 21 | 117 |
| Total | $ 1,556 | $ 1,095 | $ 11 | $ 450 | $ 1,406 | $ 1,095 | $ 70 | $ 241 |
| **LKE** | | | | | | | | |
| Treasury Derivatives | | | | | $ 174 | | $ 21 | $ 153 |
| **LG&E** | | | | | | | | |
| Treasury Derivatives | | | | | $ 113 | | $ 21 | $ 92 |
| **KU** | | | | | | | | |
| Treasury Derivatives | | | | | $ 61 | | $ | $ 61 |
| **December 31, 2014** | | | | | | | | |
| **PPL** | | | | | | | | |
| Energy Commodities | $ 1,318 | $ 1,060 | $ 10 | $ 248 | $ 1,217 | $ 1,060 | $ 58 | $ 99 |
| Treasury Derivatives | 159 | 65 | | 94 | 161 | 65 | 21 | 75 |
| Total | $ 1,477 | $ 1,125 | $ 10 | $ 342 | $ 1,378 | $ 1,125 | $ 79 | $ 174 |
| **LKE** | | | | | | | | |
| Treasury Derivatives | | | | | $ 114 | | $ 20 | $ 94 |
| **LG&E** | | | | | | | | |
| Treasury Derivatives | | | | | $ 81 | | $ 20 | $ 61 |
| **KU** | | | | | | | | |
| Treasury Derivatives | | | | | $ 33 | | | $ 33 |

## 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 the 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.

*(All Registrants except PPL Electric and KU)*

At March 31, 2015, 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 | $ 241 | $ 31 | $ 31 |
| Aggregate fair value of collateral posted on these derivative instruments | 140 | 22 | 22 |
| Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a) | 128 (b) | 10 | 10 |

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.
(b) PPL Energy Supply's credit rating is currently below investment grade. Amounts related to PPL Energy Supply represent net liability positions subject to further adequate assurance features.

## 15. Goodwill

*(PPL)*

The change in the carrying amount of goodwill for the three months ended March 31, 2015 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

## 16. Asset Retirement Obligations

*(All Registrants except PPL Electric)*

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

| | PPL | LKE | LG&E | KU |
|---|---|---|---|---|
| Balance at December 31, 2014 | $ 761 | $ 285 | $ 74 | $ 211 |
| Accretion | 12 | 3 | 1 | 2 |
| Effect of foreign currency exchange rates | (1) | | | |
| Obligations settled | (1) | (1) | (1) | |
| Balance at March 31, 2015 | $ 771 | $ 287 | $ 74 | $ 213 |

Substantially all of the ARO balances are classified as noncurrent at March 31, 2015 and December 31, 2014.

See Note 10 for information on a CCR rule that is expected to require the recording of additional AROs in the second quarter of 2015.

*(PPL)*

PPL's most significant ARO relates to the decommissioning of the Susquehanna nuclear plant. See Notes 13 and 17 for additional information on the assets in the NDT funds that are legally restricted for the purposes of settling this ARO.

*(All Registrants except PPL Electric)*

LG&E's and KU's accretion and ARO-related depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

## 17. Available-for-Sale Securities

*(PPL)*

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

| | March 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **NDT funds:** | | | | | | | | |
| Cash and cash equivalents | $ 20 | | | $ 20 | $ 19 | | | $ 19 |
| Equity securities | 287 | $ 426 | | 713 | 283 | $ 417 | | 700 |
| Debt securities | 218 | 12 | $ 1 | 229 | 218 | 11 | | 229 |
| Receivables/payables, net | 3 | | | 3 | 2 | | | 2 |
| Total NDT funds | $ 528 | $ 438 | $ 1 | $ 965 | $ 522 | $ 428 | | $ 950 |
| **Auction rate securities** | | | | | | | | |
| PPL | $ 11 | | $ 1 | $ 10 | $ 11 | | $ 1 | $ 10 |

See Note 13 for details on the securities held by the NDT funds.

There were no securities with credit losses at March 31, 2015 and December 31, 2014.

The following table shows the scheduled maturity dates of debt securities held at March 31, 2015.

| | Maturity Less Than 1 Year | Maturity 1-5 Years | Maturity 6-10 Years | Maturity in Excess of 10 Years | Total |
|---|---|---|---|---|---|
| Amortized cost | $ 11 | $ 82 | $ 67 | $ 69 | $ 229 |
| Fair value | 11 | 84 | 70 | 74 | 239 |

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended March 31.

| | Three Months | |
|---|---|---|
| | 2015 | 2014 |
| Proceeds from sales of NDT securities (a) | $ 38 | $ 27 |
| Other proceeds from sales | | 3 |
| Gross realized gains (b) | 5 | 3 |
| Gross realized losses (b) | 3 | 1 |

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

## 18. Accumulated Other Comprehensive Income (Loss)

*(PPL)*

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

| | Foreign currency translation adjustments | Unrealized gains (losses) | | Equity investees' AOCI | Defined benefit plans | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Available-for-sale securities | Qualifying derivatives | | Prior service costs | Actuarial gain (loss) | Transition asset (obligation) | |
| **December 31, 2014** | $ (286) | $ 202 | $ 20 | $ 1 | $ 3 | $ (2,215) | $ 1 | $ (2,274) |
| Amounts arising during the period | (66) | 5 | 6 | | | (1) | | (56) |
| Reclassifications from AOCI | | (1) | (17) | (1) | | 38 | | 19 |
| Net OCI during the period | (66) | 4 | (11) | (1) | | 37 | | (37) |
| **March 31, 2015** | $ (352) | $ 206 | $ 9 | $ | $ 3 | $ (2,178) | $ 1 | $ (2,311) |

| | Foreign currency translation adjustments | Unrealized gains (losses) Available-for-sale securities | Qualifying derivatives | Equity investees' AOCI | Defined benefit plans Prior service costs | Actuarial gain (loss) | Transition asset (obligation) | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2013** | $ (11) | $ 173 | $ 94 | $ 1 | $ (6) | $ (1,817) | $ 1 | $ (1,565) |
| Amounts arising during the period | 131 | 5 | (46) | | | | | 90 |
| Reclassifications from AOCI | | (1) | 19 | | 1 | 27 | | 46 |
| Net OCI during the period | 131 | 4 | (27) | | 1 | 27 | | 136 |
| **March 31, 2014** | $ 120 | $ 177 | $ 67 | $ 1 | $ (5) | $ (1,790) | $ 1 | $ (1,429) |

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

| Details about AOCI | 2015 | 2014 | Affected Line Item on the Statements of Income |
|---|---|---|---|
| Available-for-sale securities | $ 2 | $ 2 | Other Income (Expense) - net |
| Total Pre-tax | 2 | 2 | |
| Income Taxes | (1) | (1) | |
| Total After-tax | 1 | 1 | |
| | | | |
| Qualifying derivatives | | | |
| Interest rate swaps | (4) | (3) | Interest Expense |
| Cross-currency swaps | 17 | (29) | Other Income (Expense) - net |
| | 1 | | Interest Expense |
| Energy commodities | (2) | (1) | Unregulated wholesale energy |
| | 8 | 7 | Energy purchases |
| | | 2 | Discontinued operations |
| | 1 | 1 | Other |
| Total Pre-tax | 21 | (23) | |
| Income Taxes | (4) | 4 | |
| Total After-tax | 17 | (19) | |
| | | | |
| Equity investees' AOCI | 2 | | Other Income (Expense) - net |
| Total Pre-tax | 2 | | |
| Income Taxes | (1) | | |
| Total After-tax | 1 | | |
| | | | |
| Defined benefit plans | | | |
| Prior service costs | | (2) | |
| Net actuarial loss | (51) | (36) | |
| Total Pre-tax | (51) | (38) | |
| Income Taxes | 13 | 10 | |
| Total After-tax | (38) | (28) | |
| | | | |
| Total reclassifications during the period | $ (19) | $ (46) | |

## 19. New Accounting Guidance Pending Adoption

*(All Registrants)*

Accounting for Revenue from Contracts with Customers

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

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods beginning after December 15, 2016 and interim periods within those years. Early adoption is not permitted. The Registrants will adopt this guidance effective January 1, 2017.

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

## Reporting Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued accounting guidance which will require management to assess, for each interim and annual period, whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued.

When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management is required to disclose information that enables users of the financial statements to understand the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern and management's evaluation of the significance of those conditions or events. If substantial doubt about the entity's ability to continue as a going concern has been alleviated as a result of management's plan, the entity should disclose information that allows the users of the financial statements to understand those plans. If the substantial doubt about the entity's ability to continue as a going concern is not alleviated by management's plans, management's plans to mitigate the conditions or events that gave rise to the substantial doubt about the entity's ability to continue as a going concern should be disclosed, as well as a statement that there is substantial doubt the entity's ability to continue as a going concern within one year after the date the financial statements are issued.

For all entities, this guidance should be applied prospectively within the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted.

The Registrants will adopt this guidance for the annual period ending December 31, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

## Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued guidance that clarifies how current accounting guidance should be interpreted when evaluating the economic characteristics and risks of a host contract of a hybrid financial instrument issued in the form of a share. This guidance does not change the current criteria for determining whether separation of an embedded derivative feature from a hybrid financial instrument is required. Entities are still required to evaluate whether the economic risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria.

An entity should consider the substantive terms and features of the entire hybrid financial instrument, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract to determine whether the host contract is more akin to a debt instrument or more akin to an equity instrument. An entity should assess the relative strength of the debt-like and equity-like terms and features when determining how to weight those terms and features.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and should be applied using a modified retrospective method for existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year the guidance is adopted. Early adoption is permitted. Retrospective application is permitted but not required.

The Registrants will adopt this guidance on January 1, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

## Income Statement Presentation of Extraordinary and Unusual Items

In January 2015, the FASB issued accounting guidance that eliminates the concept of extraordinary items, which requires an entity to separately classify, present in the income statement and disclose material events and transactions that are both unusual and occur infrequently. The requirement to report material events or transactions that are unusual or infrequent as a separate component of income from continuing operations has been retained, as has the requirement to separately present the nature and financial effects of each event or transaction in the income statement as a separate component of continuing operations or disclose them within the notes to the financial statements. The scope of these requirements has been expanded to include items that are both unusual and occur infrequently.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted provided that an entity applies the guidance from the beginning of the fiscal year of adoption. The guidance may be applied either retrospectively or prospectively.

The Registrants will adopt this guidance on January 1, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued accounting guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the presentation of debt discounts.

For public business entities, this guidance should be applied retrospectively for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted.

The Registrants are assessing in which period they will adopt this new guidance. The adoption of this guidance will require the Registrants to reclassify debt issuance costs from assets to long-term debt, and is not expected to have a significant impact on the Registrants.

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

*(All Registrants)*

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

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2014 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

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

- "Results of Operations" for PPL provides a detailed analysis of earnings by segment, and for PPL Electric, LKE, LG&E and KU, includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2015 with the same period in 2014.

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

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

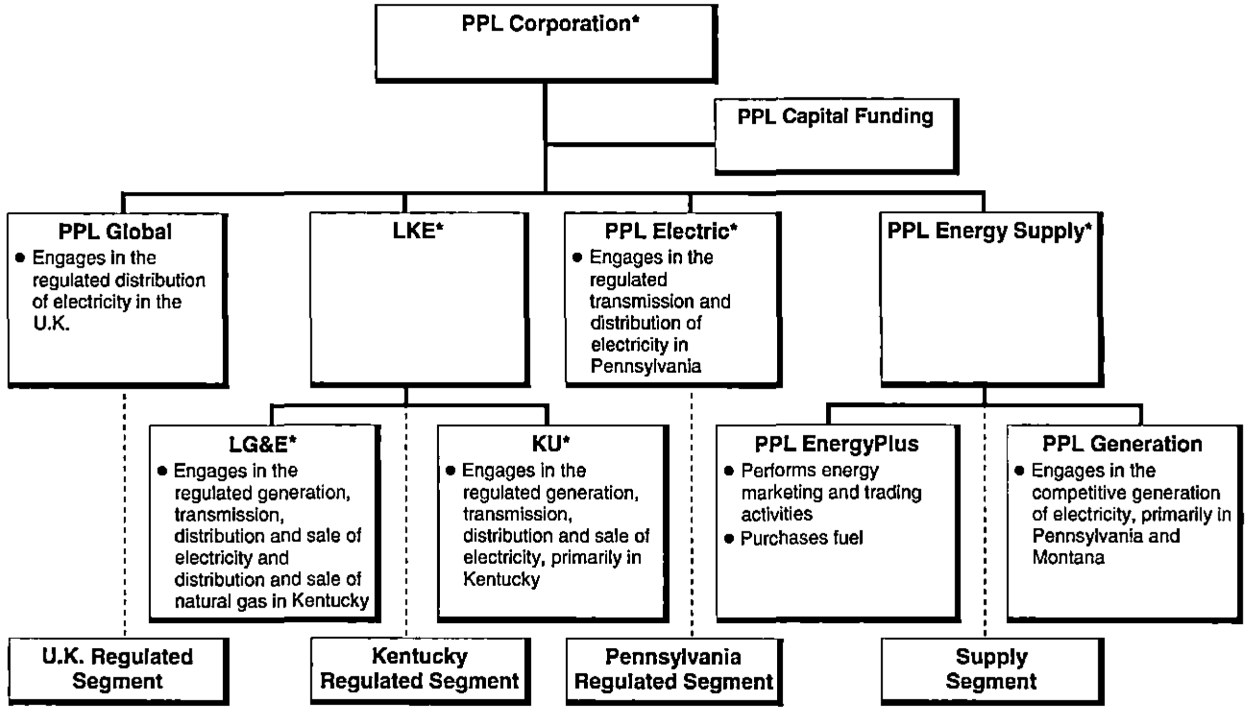
## Overview

### Introduction

*(PPL)*

PPL, headquartered in Allentown, Pennsylvania, is an energy and utility holding company. Through subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.

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




PPL's 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. The U.K. Regulated segment does not have a related Subsidiary Registrant.

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See "Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" below for additional information. Beginning in the first quarter of 2015, PPL Energy Supply is filing a separate Form 10-Q.

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

*(PPL Electric)*

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

*(LKE)*

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

*(LG&E)*

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

*(KU)*

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

## Business Strategy

*(All Registrants)*

The strategy for the regulated businesses of WPD, PPL Electric, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.K. regulated businesses, effective April 1, 2015 for the RIIO-ED1 price control period, 80% of network related expenditures are added to the RAV and, together with adjustments for inflation as measured by Retail Price Index (RPI) and a return on the RAV, recovered through allowed revenue with the remaining 20% of expenditures being recovered in the current regulatory year. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses). The RAV balance at March 31, 2015 will continue to be recovered over 20 years and additions after April 1, 2023 will be recovered over 45 years; a transitional arrangement will gradually change the life over the current price control period which commenced April 1, 2015, resulting in an expected average useful life of 35 years for RAV additions in that period. In addition, incentive targets have been adjusted in RIIO-ED1, resulting in lower overall incentive revenues available to be earned. See "Financial and Operational Developments - Other Financial and Operational Developments - RIIO-ED1" below for additional information.

For the U. S. regulated businesses, recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain 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 related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options, swaps and insurance contracts.

*(PPL)*

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners a newly formed entity, Holdco, which at such time will own all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy. Immediately following the spinoff, Holdco will merge 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 will be contributed by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of required regulatory approvals from the NRC, FERC, DOJ and

PUC, all of which were received by mid-April 2015. In addition, there must be available, subject to certain conditions, at least $1 billion of undrawn credit capacity under a revolving credit or similar facility of Talen Energy or one or more of its subsidiaries. Any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions at the time of the spinoff are excluded from this calculation.

In connection with the FERC approval, PPL and RJS Power have agreed that within 12 months after closing of the transaction, Talen Energy will divest approximately 1,300 MW of generating assets in one of two groups of assets (from PPL Energy Supply's existing portfolio, this includes either the Holtwood and Wallenpaupack hydroelectric facilities or the Ironwood facility), and limit PJM energy market offers from assets it would retain in the other group to cost-based offers.

On April 29, 2015, PPL's Board of Directors declared the distribution of Holdco to PPL's shareowners of record on May 20, 2015, with the spinoff to occur on June 1, 2015. Based on the number of shares of PPL common stock outstanding at April 29, 2015, the distribution ratio is expected to be approximately 0.125 shares of Talen common stock for each share of PPL common stock. The final ratio will be determined after the record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding.

Talen Energy will own and operate a diverse mix of approximately 14,000 MW (after divestitures to meet FERC market power standards) of generating capacity in certain U.S. competitive energy markets primarily in PJM and ERCOT.

Following the transaction, PPL's focus will be on its regulated utility businesses in the U.K., Kentucky and Pennsylvania, serving more than 10 million customers. PPL intends to maintain a strong balance sheet and manage its finances consistent with maintaining investment grade credit ratings and providing a competitive total shareowner return, including an attractive dividend. Excluding costs required to provide transition services to Talen Energy and following the spinoff transaction, PPL expects to reduce annual ongoing corporate support costs by approximately $75 million.

See "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" below for additional information.

The strategy for PPL Energy Supply is to optimize the value from its competitive generation asset and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability and positive cash flow during this current period of low energy and capacity prices.

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

## Financial and Operational Developments

### Earnings *(PPL)*

PPL's earnings by reportable segments for the periods ended March 31, were as follows:

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| U.K. Regulated | $ 375 | $ 206 | $ 169 |
| Kentucky Regulated | 109 | 107 | 2 |
| Pennsylvania Regulated | 87 | 85 | 2 |
| Supply | 95 | (75) | 170 |
| Corporate and Other (a) | (19) | (7) | (12) |
| Net Income | $ 647 | $ 316 | $ 331 |
| EPS - basic | $ 0.97 | $ 0.50 | $ 0.47 |
| EPS - diluted (b) | $ 0.96 | $ 0.49 | $ 0.47 |

(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. 2015 includes certain costs related to the anticipated spinoff of PPL Energy Supply. See the following table of special items for additional information.

(b) See Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's results for the periods ended March 31. See PPL's "Results of Operations - Segment Earnings" for details of each segment's special items.

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| U.K. Regulated | $ 39 | $ (58) | $ 97 |
| Supply (a) | 95 | (75) | 170 |
| Corporate and Other (b) | (6) | | (6) |
| Total PPL | $ 128 | $ (133) | $ 261 |

(a) As a result of the anticipated spinoff of PPL Energy Supply, substantially representing PPL's Supply segment, management is now considering the operating results of the Supply segment to be a special item. See Note 8 to the Financial Statements for additional information.

(b) Primarily includes external transaction and transition costs related to the anticipated spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

## 2015 Outlook

*(PPL)*

In anticipation of the spinoff of PPL Energy Supply, no forward looking information, including an earnings forecast, is being provided for the Supply segment.

Excluding special items, including Supply segment earnings, higher earnings are expected in 2015 compared with 2014, after adjusting 2014 to include certain dissynergies in the Corporate and Other category that were recorded in the Supply segment. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's other segments and the Corporate and Other category and the related Registrants.

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

Excluding special items, higher earnings are projected in 2015 compared with 2014, primarily driven by lower income taxes, lower depreciation expense and effects of foreign currency, partially offset by lower utility revenue as Western Power Distribution transitions to a new eight-year price control period (RIIO-ED1) effective April 1, 2015. The remaining 2015 foreign currency earnings exposure for this segment is 97 percent hedged.

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

Higher earnings are projected in 2015 compared with 2014, primarily driven by anticipated electric and gas base rate increases and returns on additional environmental capital investments, partially offset by higher operation and maintenance expense, higher depreciation and higher financing costs.

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

Excluding special items, lower earnings are projected in 2015 compared with 2014, primarily driven by higher operation and maintenance expense, higher depreciation, higher financing costs and a benefit recorded in the first quarter of 2014 for a change in estimate of a regulatory liability, partially offset by higher transmission margins and returns on distribution improvement capital investments.

*(PPL's Corporate and Other Category)*

Excluding special items, lower costs are projected in 2015 compared with 2014, after adjusting 2014 to include certain dissynergies in the Corporate and Other category that were recorded in the Supply segment, primarily driven by the reduction of those dissynergies in 2015 through corporate restructuring efforts and lower income taxes.

*(All Registrants)*

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2014 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

## Other Financial and Operational Developments

### *Economic and Market Conditions*

*(All Registrants except PPL Electric)*

The businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans either to temporarily or permanently close, and/or impair certain of their coal-fired generating plants.

*(PPL)*

Given current and forecasted economic and market conditions, the announced transaction with affiliates of Riverstone to form Talen Energy, PPL Energy Supply's current sub-investment grade credit rating and Talen Energy's expected sub-investment grade credit rating, PPL Energy Supply will continue to monitor its business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels. See "Margins - Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins" below for additional information on energy margins.

*(All Registrants)*

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

*(PPL)*

### *Anticipated Spinoff of PPL Energy Supply*

Following the announcement of the transaction to form Talen Energy as discussed in "Business Strategy" above, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges for employee separation benefits were recorded. See Note 8 in the 2014 Form 10-K for additional information. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to be completed by the end of 2015. At March 31, 2015 and December 31, 2014, the recorded liabilities related to the separation benefits were $19 million and $30 million, which are included in "Other current liabilities" on the Balance Sheets.

Additional employee-related costs to be incurred primarily include accelerated stock-based compensation and pro-rated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL employees who have become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL estimates these additional costs will be in the range of $30 million to $40 million.

PPL recorded $6 million of third-party costs during the three months ended March 31, 2015 related to this transaction. Of these costs, $2 million were primarily for legal and accounting fees to facilitate the transaction, and are recorded in "Other Income (Expense) - net" on the Statement of Income. An additional $4 million of consulting and other costs were incurred to ready the new Talen Energy organization and reconfigure the remaining PPL service functions. These costs are recorded in "Other operation and maintenance" on the Statement of Income. PPL recorded $27 million of third-party costs in 2014 related to this transaction. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between $60 million and $70 million.

The assets and liabilities of PPL's Supply segment will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction, at which time the operations of the Supply segment will be classified as discontinued operations. At the close of the transaction, unamortized losses on PPL interest rate swaps recorded in AOCI and designated as hedges of PPL Energy Supply's future interest payments will be reclassified into earnings and reflected in discontinued operations. The amount of these unamortized losses deferred in AOCI at March 31, 2015 was $55 million after-tax.

In conducting its annual goodwill impairment assessment in the fourth quarter of 2014 for its Supply segment reporting unit, PPL determined that the estimated fair value of the Supply segment exceeded its carrying value and no impairment was recognized. PPL had not identified any indicators of impairment as of March 31, 2015, but cannot predict whether an impairment loss will be recorded at the spinoff date. An impairment loss would be recognized by PPL at the spinoff date if the aggregate carrying amount of the Supply segment's assets and liabilities exceed their aggregate fair value at that date and would be reflected in discontinued operations. Upon completion of this transaction, PPL will no longer have a Supply segment.

### *RIIO-ED1*

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs. In February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs under RIIO-ED1 were accepted as submitted, or "fast-tracked." Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures during the eight-year price control period, or approximately $43 million annually, greater revenue certainty and a higher level of cost savings retention. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2014 Form 10-K for additional information on RIIO-ED1.

### *Depreciation*

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years. For the three months ended March 31, 2015, this change in useful lives resulted in lower depreciation of $20 million ($16 million after-tax or $0.02 per share). It is expected to result in an annual reduction in depreciation of approximately $81 million ($65 million after-tax or $0.10 per share) in 2015.

### *Susquehanna Turbine Blade Inspection*

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant first identified in 2011. Unit 1 completed its planned refueling and turbine inspection outage in June 2014 and installed newly designed shorter last stage blades on one of the low pressure turbines. This change allowed Unit 1 to run with reduced blade vibration and no identified cracking during 2014. In the first, second and third quarters of 2014, Unit 2 was shut down for blade inspection and replacement, as well as additional maintenance. The financial impact of the Unit 2 outages was not material. Based on the positive experience on Unit 1, the same short blade modifications are currently being installed on two of the three turbines on Unit 2 during the spring 2015 scheduled refueling outage. All remaining turbine blade modifications are scheduled to be performed during planned refueling and maintenance outages. Inspections will be performed over the next several maintenance cycles to validate the performance of the modifications and ensure that the problem has been corrected. PPL Susquehanna does not expect additional unscheduled turbine maintenance outages after these modifications are complete.

### *IRS Audits for 1998 - 2011*

In February 2015, PPL and the IRS Appeals division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. The settlement was required to be reviewed and approved by the Joint Committee on Taxation (JCT) before it is considered final. In April 2015, PPL was notified that the JCT approved PPL's settlement. Subject to a final determination of interest on the refund, PPL expects to record a tax benefit in the range of $20 million to $30 million in the second quarter of 2015 related to the settlement of previously unrecognized tax benefits.

*(PPL and PPL Electric)*

### *Rate Case Proceedings*

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The proposal would result in a rate increase of 3.9% on a total bill basis and is expected to become effective on January 1, 2016. PPL Electric's application includes a request for an authorized return-on-equity of 10.95%. The application is based on a fully projected future test year of January 1, 2016 through December 31, 2016.

Concurrently, PPL Electric filed a petition requesting a waiver of the DSIC cap of 5% of billed revenues and approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered after January 1, 2016. PPL Electric is requesting that the PUC consolidate these two proceedings and cannot predict the outcome.

*(PPL, LKE and KU)*

*FERC Wholesale Formula Rates*

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In addition, a tenth municipality which has a previously settled termination date of 2016 has given notice that it will transfer service in June 2015. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU and the terminating municipalities continue settlement discussions in this proceeding. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

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

*Rate Case Proceedings*

On November 26, 2014, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates for LG&E's electric and gas operations and KU's electric operations. On April 20, 2015, LG&E and KU, and the other parties to the proceeding, filed a unanimous settlement agreement with the KPSC. Among other things, the proposed settlement provides for increases in the annual revenue requirements associated with KU base electric rates of $125 million and LG&E base gas rates of $7 million. The annual revenue requirement associated with base electric rates at LG&E will not increase. The settlement did not establish a specific return on equity with respect to the base rates, however an authorized 10% return on equity will be utilized in the ECR and GLT mechanisms. The settlement agreement provides for deferred recovery of costs associated with Green River Units 3 and 4 through their retirement. The new regulatory asset will be amortized over three years. The settlement also provides regulatory asset treatment for the difference between pension expense currently booked in accordance with LG&E and KU's pension accounting policy and such an expense using a 15 year amortization period for actuarial gains and losses. The proposed settlement remains subject to KPSC approval. If approved, the new rates and all elements of the settlement would be effective July 1, 2015.

## Results of Operations

*(PPL)*

The discussion for PPL provides a review of results by reportable segment. The "Margins" discussion provides explanations of non-GAAP financial measures (Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins) and a reconciliation of non-GAAP financial measures to "Operating Income." The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2015 with the same period in 2014. "Segment Earnings, Margins and Statement of Income Analysis" is presented separately for PPL.

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

*(Subsidiary Registrants)*

The discussion for each of PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three months ended March 31, 2015 with the same period in 2014. "Earnings, Margins and Statement of Income Analysis" is presented separately for PPL Electric, LKE, LG&E and KU.

*(All Registrants)*

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

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

### Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and allocated financing costs. The U.K. Regulated segment represents 58% of Net Income for the three months ended March 31, 2015 and 33% of PPL's assets at March 31, 2015.

Net Income for the periods ended March 31 includes the following results:

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| Utility revenues | $ 686 | $ 637 | $ 49 |
| Energy-related businesses | 11 | 11 | |
| Total operating revenues | 697 | 648 | 49 |
| Other operation and maintenance | 103 | 108 | (5) |
| Depreciation | 59 | 83 | (24) |
| Taxes, other than income | 36 | 38 | (2) |
| Energy-related businesses | 7 | 7 | |
| Total operating expenses | 205 | 236 | (31) |
| Other Income (Expense) - net | 88 | (24) | 112 |
| Interest Expense | 100 | 122 | (22) |
| Income Taxes | 105 | 60 | 45 |
| Net Income | $ 375 | $ 206 | $ 169 |

The changes in the results of the U.K. Regulated segment between these periods were due to the factors set forth below, which reflect certain items that management considers special and effects of movements in foreign currency exchange on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

| | Three Months |
|---|---|
| U.K. | |
| Utility revenues | $ 33 |
| Other operation and maintenance | (3) |
| Depreciation | 20 |
| Interest expense | 5 |
| Income taxes | (6) |
| U.S. | |
| Interest expense and other | 9 |
| Income taxes | 7 |
| Foreign currency exchange, after-tax | 7 |
| Special items, after-tax | 97 |
| Total | $ 169 |

*U.K.*

- Higher utility revenues primarily due to $42 million from the April 1, 2014 price increase, partially offset by $10 million of lower volume.

- Lower depreciation expense primarily due to a $20 million impact of an extension of the network asset lives. See Note 2 to the Financial Statements for additional information.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended March 31.

| | Income Statement Line Item | Three Months 2015 | Three Months 2014 |
|---|---|---|---|
| Foreign currency-related economic hedges, net of tax of $(20), $3 (a) | Other Income (Expense)-net | $ 37 | $ (6) |
| WPD Midlands acquisition-related adjustment, net of tax of $(1), $0 | Other operation and maintenance | 2 | |
| Change in WPD line loss accrual, net of tax of $0, $13 (b) | Utility | | (52) |
| Total | | $ 39 | $ (58) |

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP denominated earnings.
(b) In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by $65 million, pre-tax, for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

## Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 17% of Net Income for the three months ended March 31, 2015 and 27% of PPL's assets at March 31, 2015.

Net Income for the periods ended March 31 includes the following results:

| | Three Months 2015 | Three Months 2014 | $ Change |
|---|---|---|---|
| Utility revenues | $ 899 | $ 934 | $ (35) |
| Fuel | 253 | 277 | (24) |
| Energy purchases | 92 | 124 | (32) |
| Other operation and maintenance | 209 | 206 | 3 |
| Depreciation | 95 | 86 | 9 |
| Taxes, other than income | 14 | 13 | 1 |
| Total operating expenses | 663 | 706 | (43) |
| Other Income (Expense) - net | (1) | (2) | 1 |
| Interest Expense | 55 | 55 | |
| Income Taxes | 71 | 64 | 7 |
| Net Income | $ 109 | $ 107 | $ 2 |

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

| | Three Months |
|---|---|
| Kentucky Gross Margins | $ 14 |
| Other operation and maintenance | (2) |
| Depreciation | (4) |
| Other Income (Expense) - net | 1 |
| Income taxes | (7) |
| Total | $ 2 |

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher depreciation expense primarily due to PP&E additions, net.
- Higher income taxes due to higher pre-tax income which increased income taxes by $4 million and the establishment of a valuation allowance on a deferred tax asset of $3 million.

## Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. The Pennsylvania Regulated segment represents 13% of Net Income for the three months ended March 31, 2015 and 16% of PPL's assets at March 31, 2015.

Net Income for the periods ended March 31 includes the following results:

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| Utility revenues | $ 630 | $ 592 | $ 38 |
| Energy purchases | | | |
| External | 227 | 189 | 38 |
| Intersegment | 9 | 27 | (18) |
| Other operation and maintenance | 133 | 134 | (1) |
| Depreciation | 51 | 45 | 6 |
| Taxes, other than income | 35 | 32 | 3 |
| Total operating expenses | 455 | 427 | 28 |
| Other Income (Expense) - net | 2 | 2 | |
| Interest Expense | 31 | 29 | 2 |
| Income Taxes | 59 | 53 | 6 |
| Net Income | $ 87 | $ 85 | $ 2 |

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

| | Three Months |
|---|---|
| Pennsylvania Gross Delivery Margins | $ 13 |
| Other operation and maintenance | 2 |
| Depreciation | (6) |
| Interest expense | (2) |
| Other | 1 |
| Income taxes | (6) |
| Total | $ 2 |

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

- Higher depreciation expense primarily due to transmission PP&E additions, net as well as additions related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure.

- Higher income taxes primarily due to higher pre-tax income.

## Supply Segment

The Supply segment primarily consists of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents 15% of Net Income for the three months ended March 31, 2015 and 22% of PPL's assets at March 31, 2015.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 to the Financial Statements for additional information.

Net Income for the periods ended March 31 includes the following results:

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| Energy revenues | | | |
| External (a) (b) | $ 833 | $ (1,107) | $ 1,940 |
| Intersegment | 9 | 27 | (18) |
| Energy-related businesses | 104 | 125 | (21) |
| Total operating revenues | 946 | (955) | 1,901 |
| Fuel (a) | 351 | 482 | (131) |
| Energy purchases (a) (c) | 1 | (1,804) | 1,805 |
| Other operation and maintenance | 226 | 229 | (3) |
| Depreciation | 77 | 75 | 2 |
| Taxes, other than income | 15 | 18 | (3) |
| Energy-related businesses | 98 | 124 | (26) |
| Total operating expenses | 768 | (876) | 1,644 |

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| Other Income (Expense) - net | 7 | 6 | 1 |
| Interest Expense | 38 | 46 | (8) |
| Income Taxes | 52 | (52) | 104 |
| Income (Loss) from Discontinued Operations | | (8) | 8 |
| Net Income | $ 95 | $ (75) | $ 170 |

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.
(b) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
(c) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The changes in the results of the Supply segment between these periods were due to the factors set forth below, which reflect amounts classified as Unregulated Gross Energy Margins and certain other items on separate lines and not in their respective Statement of Income line items. See below for additional detail of these other items.

| | Three Months |
|---|---|
| Unregulated Gross Energy Margins | $ (58) |
| Other operation and maintenance | 8 |
| Other Income (Expense) - net | 1 |
| Interest expense | 9 |
| Other | 2 |
| Income taxes | 5 |
| Energy-related businesses | 5 |
| Discontinued operations, after-tax | 27 |
| Other items, after-tax | 171 |
| Total | $ 170 |

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower other operation and maintenance primarily due to lower labor costs attributable to restructuring activities.
- Lower interest expense primarily due to certain PPL Capital Funding debt no longer being associated with the Supply segment in 2015 and represents a dissynergy for PPL related to the spinoff of PPL Energy Supply.

The following after-tax gains (losses), reflected as "Other items, after-tax" in the table above, also impacted the Supply segment's results during the periods ended March 31.

| | Income Statement Line Item | Three Months 2015 | Three Months 2014 |
|---|---|---|---|
| Adjusted energy-related economic activity - net, net of tax of $(18), $95 | (a) | $ 27 | $ (139) |
| Kerr Dam Project impairment, net of tax of $0, $8 (b) | Discontinued Operations | | (10) |
| Corette closure costs, net of tax of $2, $0 (c) | Other operation and maintenance | (3) | |
| Spinoff of PPL Energy Supply: | | | |
| Transition costs, net of tax of $0, $0 | Other operation and maintenance | (1) | |
| Employee transitional services, net of tax of $1, $0 | Other operation and maintenance | (1) | |
| Total | | $ 22 | $ (149) |

(a) Represents unrealized gains (losses), after-tax, on economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. Amounts have been adjusted for insignificant option premiums.
(b) In 2014, an arbitration panel issued its final decision holding that the conveyance price payable to PPL Montana was $18 million. As a result, PPL determined the Kerr Dam Project was impaired and recorded a pre-tax charge of $18 million. See Note 13 to the Financial Statements for additional information.
(c) Operations were suspended and the Corette plant was retired in March 2015.

## Margins

### Non-GAAP Financial Measures

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

- "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 as "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded as "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the electricity delivery operations of the Pennsylvania Regulated segment and PPL Electric, which includes transmission and distribution activities. 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 is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in "Taxes, other than income," and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Unregulated wholesale energy," "Unregulated retail energy" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below. "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges and premium amortization associated with options. Unrealized gains and losses related to this activity are deferred and included in "Unregulated Gross Energy Margins" over the delivery period of the item that was hedged or upon realization.

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 the operations and analyze actual results compared with budget.

## Reconciliation of Non-GAAP Financial Measures

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

| | 2015 Three Months | | | | | 2014 Three Months | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Kentucky Gross Margins | PA Gross Delivery Margins | Unregulated Gross Energy Margins | Other (a) | Operating Income (b) | Kentucky Gross Margins | PA Gross Delivery Margins | Unregulated Gross Energy Margins | Other (a) | Operating Income (b) |
| **Operating Revenues** | | | | | | | | | | |
| Utility | $ 899 | $ 630 | | $ 685 (c) | $ 2,214 | $ 934 | $ 592 | | $ 636 (c) | $ 2,162 |
| PLR intersegment utility revenue (expense) (d) | | (9) | $ 9 | | | | (27) | $ 27 | | |
| Unregulated wholesale energy | | | 614 | (93) (e) | 521 | | | (665) | (792) (e) | (1,457) |
| Unregulated retail energy | | | 324 | (14) (e) | 310 | | | 377 | (29) (e) | 348 |
| Energy-related businesses | | | | 120 | 120 | | | | 141 | 141 |
| Total Operating Revenues | 899 | 621 | 947 | 698 | 3,165 | 934 | 565 | (261) | (44) | 1,194 |
| **Operating Expenses** | | | | | | | | | | |
| Fuel | 253 | | 351 | | 604 | 277 | | 481 | | 758 |
| Energy purchases | 92 | 227 | 152 | (150) (e) | 321 | 124 | 189 | (1,219) | (588) (e) | (1,494) |
| Other operation and maintenance | 24 | 26 | 4 | 614 | 668 | 23 | 25 | 7 | 613 | 668 |
| Depreciation | 7 | | | 286 | 293 | 2 | | | 298 | 300 |
| Taxes, other than income | 1 | 33 | 12 | 55 | 101 | | 29 | 13 | 59 | 101 |
| Energy-related businesses | | | 2 | 109 | 111 | | | 2 | 136 | 138 |
| Total Operating Expenses | 377 | 286 | 521 | 914 | 2,098 | 426 | 243 | (716) | 518 | 471 |
| Income (Loss) from Discontinued Operations | | | | | | | | 29 | (29) (f) | |
| Total | $ 522 | $ 335 | $ 426 | $ (216) | $ 1,067 | $ 508 | $ 322 | $ 484 | $ (591) | $ 723 |

(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements. Amounts have been adjusted for insignificant option premiums.
(f) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in "Operating Income" on the Statements of Income.

## Changes in Non-GAAP Financial Measures

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

| | Three Months | | |
|---|---|---|---|
| | 2015 | 2014 | $ Change |
| **Kentucky Regulated** | | | |
| Kentucky Gross Margins | | | |
| LG&E | $ 230 | $ 226 | $ 4 |
| KU | 292 | 282 | 10 |
| LKE | $ 522 | $ 508 | $ 14 |
| **Pennsylvania Regulated** | | | |
| Pennsylvania Gross Delivery Margins | | | |
| Distribution | $ 242 | $ 249 | $ (7) |
| Transmission | 93 | 73 | 20 |
| Total | $ 335 | $ 322 | $ 13 |
| **Supply** | | | |
| Unregulated Gross Energy Margins | | | |
| Eastern U.S. | $ 405 | $ 435 | $ (30) |
| Western U.S. | 21 | 49 | (28) |
| Total | $ 426 | $ 484 | $ (58) |

### *Kentucky Gross Margins*

Kentucky Gross Margins increased primarily due to returns on additional environmental capital investments of $18 million ($10 million at LG&E and $8 million at KU) and higher demand revenue of $7 million ($6 million at KU and $1 million at LG&E) partially offset by lower sales volume of $10 million ($6 million at KU and $4 million at LG&E). The change in sales volume was primarily attributable to milder winter weather conditions in 2015 compared to 2014.

### *Pennsylvania Gross Delivery Margins*

*Distribution*

Distribution margins decreased primarily due to a $12 million benefit recorded in the first quarter of 2014 as a result of a change in estimate of a regulatory liability partially offset by a $4 million favorable effect of distribution improvement capital investments and a $4 million impact of favorable weather.

*Transmission*

Transmission margins increased primarily due to increased capital investments.

### *Unregulated Gross Energy Margins*

*Eastern U.S.*

Eastern margins decreased primarily due to lower capacity prices of $69 million, unusually cold weather conditions in 2014 as discussed below of $38 million, net change on commodity positions of $28 million and full-requirement sales contracts of $22 million, partially offset by higher baseload energy prices of $75 million and favorable asset performance of $49 million.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns, causing rising natural gas and electricity prices in spot and near-term forward markets. Due to these market dynamics, PPL Energy Supply captured opportunities on unhedged generation, which were offset primarily by losses incurred by under-hedged full-requirement sales contracts and retail electric portfolios which were not fully hedged or able to be fully hedged given the extreme load conditions and lack of market liquidity.

*Western U.S.*

Western margins decreased primarily due to the sale of the Montana hydroelectric generating facilities in November 2014.

## Statement of Income Analysis --

## Utility Revenues

The increase (decrease) in utility revenues for the period ended March 31, 2015 compared with 2014 was due to:

| | Three Months |
|---|---|
| Domestic: | |
| PPL Electric (a) | $ 38 |
| LKE (b) | (35) |
| Total Domestic | 3 |
| U.K.: | |
| Price (c) | 42 |
| Foreign currency exchange rates | (48) |
| Volume | (10) |
| Line loss accrual adjustments (d) | 65 |
| Total U.K. | 49 |
| Total | $ 52 |

(a) See "Pennsylvania Gross Delivery Margins" for further information.
(b) See "Kentucky Gross Margins" for further information.
(c) The increase was due to a price increase effective April 1, 2014.
(d) The increase was due to unfavorable accrual adjustments in 2014 based on Ofgem's final decision on the DPCR4 line loss incentives and penalties. See Note 6 to the Financial Statements for additional information.

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

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2015 compared with 2014 are included above within "Margins" and are not discussed separately.

| | Three Months |
|---|---|
| Unregulated wholesale energy (a) | $ 1,978 |
| Unregulated retail energy | (38) |
| Fuel | (154) |
| Energy purchases (b) | 1,815 |

(a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather
(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

### Energy-Related Businesses

Net contributions from energy-related businesses increased by $6 million for the period ended March 31, 2015 compared with 2014 primarily due to higher margins on existing construction projects at the mechanical contracting and engineering subsidiaries.

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2015 compared with 2014 was due to:

| | Three Months |
|---|---|
| Domestic: | |
| Fossil and hydroelectric plants (a) | $ 4 |
| PPL EnergyPlus (b) | (9) |
| PPL Electric storm costs | (10) |
| PPL Electric Act 129 | 5 |
| External transition costs associated with the spinoff of PPL Energy Supply | 4 |
| Uncollectible accounts | 3 |
| Other | 9 |
| U.K.: | |
| Network maintenance | (5) |
| Foreign currency exchange rates | (7) |
| Pension | (4) |
| Engineering management | 9 |
| WPD Midlands acquisition-related adjustment | (3) |
| Other | 4 |
| Total | $ |

(a) The increase was primarily due to costs related to the retirement of the Corette plant in March 2015.
(b) The decrease was primarily due to lower labor costs attributable to restructuring activities.

### Depreciation

Depreciation decreased by $7 million for the three months ended March 31, 2015 compared with 2014, primarily due to a $20 million reduction from an extension of the WPD network asset lives partially offset by additions to PP&E, net. See Note 2 to the Financial Statements for additional information on the extension of WPD network asset lives.

### Other Income (Expense) - net

Other income (expense) - net increased by $118 million for the three months ended March 31, 2015 compared with 2014, primarily due to an increase of $112 million from realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

See Note 12 to the Financial Statements for additional information.

### Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2015 compared with 2014 was due to:

| | Three Months |
|---|---|
| Loss on extinguishment of debt (a) | $ (9) |
| Foreign currency exchange rates | (7) |
| Other | 1 |
| Total | $ (15) |

(a) In March 2014, PPL Capital Funding remarketed and exchanged junior subordinated notes that were originally issued in April 2011 as a component of PPL's 2011 Equity Units.

### Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2015 compared with 2014 was due to:

| | Three Months |
|---|---|
| Change in pre-tax income at current period tax rates | $ 165 |
| Valuation allowance adjustments | 3 |
| U.S. income tax on foreign earnings net of foreign tax credit | (12) |
| Intercompany interest on U.K. financing entities | (6) |
| Impact of lower U.K. income tax rates | 6 |
| Other | (2) |
| Total | $ 154 |

See Note 5 to the Financial Statements for additional information.

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

Income (Loss) from Discontinued Operations (net of income taxes) for the three months ended March 31, 2014 includes the results of operations of the Montana hydroelectric generating facilities, which were sold in November 2014. See "Discontinued Operations - Montana Hydro Sale" in Note 8 to the Financial Statements for additional information.

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

### Earnings

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Net Income | $ 87 | $ 85 |

Earnings increased slightly for the three month period in 2015 compared with 2014 primarily due to higher margins from additional transmission capital investments, partially offset by higher depreciation expense. The first quarter of 2014 also benefited from a change in estimate of a regulatory liability.

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

| | Three Months |
|---|---|
| Pennsylvania Gross Delivery Margins | $ 13 |
| Other operation and maintenance | 2 |
| Depreciation | (6) |
| Other | 1 |
| Interest expense | (2) |
| Income taxes | (6) |
| Total | $ 2 |

### Margins

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

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

| | 2015 Three Months | | | 2014 Three Months | | |
|---|---|---|---|---|---|---|
| | PA Gross Delivery Margins | Other (a) | Operating Income (b) | PA Gross Delivery Margins | Other (a) | Operating Income (b) |
| **Operating Revenues** | $ 630 | | $ 630 | $ 592 | | $ 592 |
| **Operating Expenses** | | | | | | |
| Energy purchases | 227 | | 227 | 189 | | 189 |
| Energy purchases from affiliate | 9 | | 9 | 27 | | 27 |
| Other operation and maintenance | 26 | $ 107 | 133 | 25 | $ 109 | 134 |
| Depreciation | | 51 | 51 | | 45 | 45 |
| Taxes, other than income | 33 | 2 | 35 | 29 | 3 | 32 |
| Total Operating Expenses | 295 | 160 | 455 | 270 | 157 | 427 |
| Total | $ 335 | $ (160) | $ 175 | $ 322 | $ (157) | $ 165 |

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

### Statement of Income Analysis --

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

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2015 compared with 2014 are included above within "Margins" and are not discussed separately.

| | | Three Months |
|---|---|---|
| Operating revenues | $ | 38 |
| Energy purchases | | 38 |
| Energy purchases from affiliate | | (18) |

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2015 compared with 2014 was due to:

| | | Three Months |
|---|---|---|
| Vegetation management | $ | (2) |
| Storm costs | | (10) |
| Act 129 | | 5 |
| Uncollectible accounts | | 3 |
| Corporate service costs | | 3 |
| Total | $ | (1) |

### Depreciation

Depreciation increased by $6 million for the three months ended March 31, 2015 compared with 2014, primarily due to transmission PP&E additions, net as well as additions related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure.

### Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2015 compared with 2014 was due to:

| | | Three Months |
|---|---|---|
| Change in pre-tax income at current period tax rates | $ | 5 |
| Other | | 1 |
| Total | $ | 6 |

See Note 5 to the Financial Statements for additional information.

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

### Earnings

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Net Income | $ | 117 | $ | 115 |

Earnings increased slightly for the three month period in 2015 compared with 2014 primarily due to returns on additional environmental capital investments and higher demand revenue partially offset by lower sales volume, higher depreciation expense and higher income tax expense. The change in sales volume was primarily attributable to milder winter weather conditions in 2015 compared to 2014.

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

| | Three Months |
|---|---|
| Margins | $ 14 |
| Other operation and maintenance | (2) |
| Depreciation | (4) |
| Other Income (Expense)- net | 1 |
| Income taxes | (7) |
| Total | $ 2 |

## Margins

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

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

| | 2015 Three Months | | | 2014 Three Months | | |
|---|---|---|---|---|---|---|
| | Margins | Other (a) | Operating Income (b) | Margins | Other (a) | Operating Income (b) |
| **Operating Revenues** | $ 899 | | $ 899 | $ 934 | | $ 934 |
| **Operating Expenses** | | | | | | |
| Fuel | 253 | | 253 | 277 | | 277 |
| Energy purchases | 92 | | 92 | 124 | | 124 |
| Other operation and maintenance | 24 | $ 185 | 209 | 23 | $ 183 | 206 |
| Depreciation | 7 | 88 | 95 | 2 | 84 | 86 |
| Taxes, other than income | 1 | 13 | 14 | | 13 | 13 |
| Total Operating Expenses | 377 | 286 | 663 | 426 | 280 | 706 |
| Total | $ 522 | $ (286) | $ 236 | $ 508 | $ (280) | $ 228 |

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

## Statement of Income Analysis --

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

The following Statement of Income line items and their related decrease during the period ended March 31, 2015 compared with 2014 are included above within "Margins" and are not discussed separately.

| | Three Months |
|---|---|
| Operating revenues | $ 35 |
| Fuel | 24 |
| Energy purchases | 32 |

## Depreciation

Depreciation increased by $9 million for the three months ended March 31, 2015 compared with 2014 primarily due to additions to PP&E, net.

## Income Taxes

Income taxes increased by $7 million for the three months ended March 31, 2015 compared with 2014 due to the change in pre-tax income of $4 million and the establishment of a valuation allowance on a deferred tax asset of $3 million.

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

## Earnings

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Net Income | $ 53 | $ 52 |

Earnings increased slightly for the three month period in 2015 compared with 2014 primarily due to returns on additional environmental capital investments partially offset by lower sales volume and higher depreciation expense. The change in sales volume was primarily attributable to milder winter weather conditions in 2015 compared to 2014.

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

| | Three Months |
|---|---|
| Margins | $ 4 |
| Other operation and maintenance | 2 |
| Depreciation | (2) |
| Other Income (Expense) - net | 1 |
| Interest expense | (1) |
| Income taxes | (3) |
| Total | $ 1 |

## Margins

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

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

| | 2015 Three Months | | | 2014 Three Months | | |
|---|---|---|---|---|---|---|
| | Margins | Other (a) | Operating Income (b) | Margins | Other (a) | Operating Income (b) |
| **Operating Revenues** | $ 439 | | $ 439 | $ 479 | | $ 479 |
| **Operating Expenses** | | | | | | |
| Fuel | 103 | | 103 | 117 | | 117 |
| Energy purchases, including affiliate | 91 | | 91 | 124 | | 124 |
| Other operation and maintenance | 11 | $ 85 | 96 | 11 | $ 87 | 98 |
| Depreciation | 3 | 39 | 42 | 1 | 37 | 38 |
| Taxes, other than income | 1 | 6 | 7 | | 6 | 6 |
| Total Operating Expenses | 209 | 130 | 339 | 253 | 130 | 383 |
| Total | $ 230 | $ (130) | $ 100 | $ 226 | $ (130) | $ 96 |

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

## Statement of Income Analysis --

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

The following Statement of Income line items and their related decrease during the period ended March 31, 2015 compared with 2014 are included above within "Margins" and are not discussed separately.

| | Three Months |
|---|---|
| Retail and wholesale | $ 25 |
| Electric revenue from affiliate | 15 |
| Fuel | 14 |
| Energy purchases | 30 |
| Energy purchases from affiliate | 3 |

## Depreciation

Depreciation increased by $4 million for the three months ended March 31, 2015 compared with 2014 primarily due to additions to PP&E, net.

# KU: Earnings, Margins and Statement of Income Analysis

## Earnings

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Net Income | $ 78 | $ 77 |

Earnings increased slightly for the three month period in 2015 compared with 2014 primarily due to returns on additional environmental capital investments and higher demand revenue partially offset by lower sales volume, higher expenses related to scheduled maintenance outages and higher depreciation expense. The change in sales volume was primarily attributable to milder winter weather conditions in 2015 compared to 2014.

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

| | Three Months |
|---|---|
| Margins | $ 10 |
| Other operation and maintenance | (5) |
| Depreciation | (2) |
| Other Income (Expense)- net | (1) |
| Income taxes | (1) |
| Total | $ 1 |

## Margins

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

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

| | 2015 Three Months | | | 2014 Three Months | | |
|---|---|---|---|---|---|---|
| | Margins | Other (a) | Operating Income (b) | Margins | Other (a) | Operating Income (b) |
| **Operating Revenues** | $ 485 | | $ 485 | $ 498 | | $ 498 |
| **Operating Expenses** | | | | | | |
| Fuel | 150 | | 150 | 160 | | 160 |
| Energy purchases, including affiliate | 26 | | 26 | 43 | | 43 |
| Other operation and maintenance | 13 | $ 91 | 104 | 12 | $ 86 | 98 |
| Depreciation | 4 | 49 | 53 | 1 | 47 | 48 |
| Taxes, other than income | | 7 | 7 | | 7 | 7 |
| Total Operating Expenses | 193 | 147 | 340 | 216 | 140 | 356 |
| **Total** | $ 292 | $ (147) | $ 145 | $ 282 | $ (140) | $ 142 |

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

### Statement of Income Analysis --

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

The following Statement of Income line items and their related decrease during the period ended March 31, 2015 compared with 2014 are included above within "Margins" and are not discussed separately.

| | Three Months |
|---|---|
| Retail and wholesale | $ 10 |
| Electric revenue from affiliate | 3 |
| Fuel | 10 |
| Energy purchases | 2 |
| Energy purchases from affiliate | 15 |

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2015 compared with 2014 was due to:

| | Three Months |
|---|---|
| Timing and scope of generation maintenance | $ 2 |
| Pension | 3 |
| Storm expenses | (2) |
| Other | 3 |
| Total | $ 6 |

### Depreciation

Depreciation increased by $5 million for the three months ended March 31, 2015 compared with 2014 primarily due to additions to PP&E, net.

## Financial Condition

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

### Liquidity and Capital Resources

*(All Registrants)*

The Registrants had the following at:

| | PPL (a) | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| **March 31, 2015** | | | | | |
| Cash and cash equivalents | $ 1,335 | $ 35 | $ 40 | $ 17 | $ 23 |
| Short-term investments | 135 | | | | |
| Short-term debt | 1,595 | 85 | 484 | 216 | 193 |
| Notes payable with affiliates | | | 40 | | |
| **December 31, 2014** | | | | | |
| Cash and cash equivalents | $ 1,751 | $ 214 | $ 21 | $ 10 | $ 11 |
| Short-term investments | 120 | | | | |
| Short-term debt | 1,466 | | 575 | 264 | 236 |
| Notes payable with affiliates | | | 41 | | |

(a) At March 31, 2015, $416 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2014 Form 10-K for additional information on undistributed earnings of WPD.

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

| | | PPL | | PPL Electric | | LKE | | LG&E | | KU |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | |
| Operating activities | $ | 673 | $ | (45) | $ | 451 | $ | 251 | $ | 229 |
| Investing activities | | (990) | | (225) | | (317) | | (173) | | (144) |
| Financing activities | | (97) | | 91 | | (115) | | (71) | | (73) |
| **2014** | | | | | | | | | | |
| Operating activities | $ | 931 | $ | (4) | $ | 310 | $ | 149 | $ | 191 |
| Investing activities | | (1,183) | | (42) | | (206) | | (116) | | (154) |
| Financing activities | | 392 | | 63 | | (109) | | (32) | | (37) |
| **Change - Cash Provided (Used)** | | | | | | | | | | |
| Operating activities | $ | (258) | $ | (41) | $ | 141 | $ | 102 | $ | 38 |
| Investing activities | | 193 | | (183) | | (111) | | (57) | | 10 |
| Financing activities | | (489) | | 28 | | (6) | | (39) | | (36) |

## Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2015 compared with 2014 were as follows.

| | | PPL | | PPL Electric | | LKE | | LG&E | | KU |
|---|---|---|---|---|---|---|---|---|---|---|
| Change - Cash Provided (Used) | | | | | | | | | | |
| Net income | $ | 331 | $ | 2 | $ | 2 | $ | 1 | $ | 1 |
| Non-cash components | | (255) | | | | 31 | | 50 | | 15 |
| Working capital | | (171) | | (31) | | 126 | | 68 | | 37 |
| Defined benefit plan funding | | (136) | | (14) | | (15) | | (13) | | (12) |
| Other operating activities | | (27) | | 2 | | (3) | | (4) | | (3) |
| Total | $ | (258) | $ | (41) | $ | 141 | $ | 102 | $ | 38 |

*(PPL)*

PPL had a $258 million decrease in cash provided by operating activities in 2015 compared with 2014.

- Net income improved by $331 million between the periods. However, this included an additional $255 million of net non-cash benefits, including a $331 million decrease in unrealized losses on hedging activities, which was partially offset by a $150 million increase in deferred income tax expense. The net $76 million increase from net income and non-cash components in 2015 compared with 2014 reflects higher revenues in the U.K. and higher margins in the Pennsylvania and Kentucky regulated segments.

- The $171 million decrease in cash from changes in working capital was primarily due to decreases in accounts payable, in part due to lower swaps payable and the impact of market price changes on electric trading and timing of payments. The decrease also reflects lower taxes payable and other current liabilities. These cash outflows were partially offset by the positive impact of lower unbilled revenues.

- Defined benefit plan funding was $136 million higher in 2015.

*(PPL Electric)*

PPL Electric had a $41 million increase in cash used in operating activities in 2015 compared with 2014.

- Net income improved by $2 million between the periods. There was no change in net non-cash components of net income.

- The $31 million decline in cash from changes in working capital was partially due to a decrease in accounts payable with affiliates (primarily due to lower federal income taxes payable to PPL) partially offset by a decrease in accounts receivable.

- Defined benefit plan funding was $14 million higher in 2015.

*(LKE)*

LKE had a $141 million increase in cash provided by operating activities in 2015 compared with 2014.

- LKE's non-cash components of net income included a $9 million increase in depreciation expense due to additional assets in service since the first quarter of 2014, a $1 million increase in deferred income taxes primarily due to an increase in accelerated depreciation over book depreciation of $34 million, partially offset by a decrease in utilization of Federal net operating losses of $36 million, and a net $21 million change in regulatory assets and regulatory liabilities due to the timing of rate recovery mechanisms.
- The increase in cash from working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from PPL for the use of excess tax depreciation deductions in 2014, a decrease in coal inventory due to fewer purchases and a decrease in natural gas stored underground due to increased withdrawals, partially offset by a decrease in accounts payable due to the timing of fuel purchases.

*(LG&E)*

LG&E had a $102 million increase in cash provided by operating activities in 2015 compared with 2014.

- LG&E's non-cash components of net income included a $4 million increase in depreciation expense due to additional assets in service since the first quarter of 2014, a $25 million increase in deferred income taxes primarily due to an increase in accelerated depreciation over book depreciation of $18 million, and a net $18 million increase in regulatory assets and regulatory liabilities due to the timing of rate recovery mechanisms.
- The increase in cash from working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from LKE for the use of excess tax depreciation deductions in 2014, a decrease in accounts receivable from affiliates due to timing of intercompany settlements associated with capital expenditures and inventory, a decrease in coal inventory due to fewer purchases and a decrease in natural gas stored underground due to increased withdrawals, partially offset by a decrease in accounts payable due to the timing of fuel purchases.

*(KU)*

KU had a $38 million increase in cash provided by operating activities in 2015 compared with 2014.

- KU's non-cash components of net income included a $5 million increase in depreciation expense due to additional assets in service since the first quarter of 2014 and a $9 million increase in deferred income taxes primarily due to an increase in accelerated depreciation over book depreciation of $16 million, offset by a $6 million Federal net operating loss accrual.
- The increase in cash from working capital was driven primarily by a decrease in income tax receivable as a result of receiving payments from LKE for the use of excess tax depreciation deductions in 2014, and a decrease in coal inventory due to fewer purchases, partially offset by a decrease in accounts payable due to the timing of fuel purchases and a decrease in accounts payable to affiliates due to timing of intercompany settlements associated with capital expenditures and inventory.

## Investing Activities

*(All Registrants)*

*Expenditures for Property, Plant and Equipment*

The primary use of cash within investing activities is expenditures for PP&E. The change in these expenditures for the three months ended March 31, 2015 compared with 2014 was as follows.

| | PPL | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| (Increase) Decrease | $ (50) | $ (23) | $ (49) | $ (57) | $ 6 |

The increase in expenditures for PP&E for PPL was primarily due to the changes in project expenditures at PPL Electric, LG&E and KU, partially offset by lower expenditures at WPD. The increase in expenditures for PPL Electric was primarily due to increases in expenditures for the Northeast Pocono reliability project, smart grid projects and other various projects, partially offset by the near completion of the Susquehanna-Roseland transmission project. The increase in expenditures for LG&E was primarily due to environmental air projects at LG&E's Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 and CCR projects at KU's Ghent and E.W. Brown plants, partially offset by higher expenditures for environmental air projects at KU's Ghent and E.W. Brown plants.

*Other Significant Changes in Components of Investing Activities*

For PPL, the change in investing activities for the three months ended March 31, 2015 compared with 2014 reflects decreases of $324 million in additional cash restricted for collateral requirements to support PPL Energy Supply's commodity hedging program. This was primarily due to an increase in forward prices in the three months ended March 31, 2014.

PPL also had investing inflows of $56 million for the three months ended March 31, 2014 from U.S. Department of Treasury grants for the Rainbow hydroelectric expansion projects.

PPL Electric received $150 million during the three months ended March 31, 2014 on notes receivable from affiliates.

## Financing Activities

*(All Registrants)*

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2015 compared with 2014 was as follows.

| | PPL | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| Change - Cash Provided (Used) | | | | | |
| Long-term debt issuances/retirements, net | $ 238 | $ 10 | | | |
| Stock issuances/redemptions, net | 20 | | | | |
| Dividends | (16) | (12) | | $ 4 | $ 7 |
| Capital contributions/distributions, net | | (15) | $ 41 | | (40) |
| Change in short-term debt, net | (745) | 45 | (46) | (43) | (3) |
| Other financing activities | 14 | | (1) | | |
| Total | $ (489) | $ 28 | $ (6) | $ (39) | $ (36) |

For the three months ended March 31, 2015, PPL required $489 million less cash from financing activities primarily due to lower cash requirements to support PPL Energy Supply's commodity hedging program and the ability to use cash from operating activities and cash-on-hand to support the significant capital expenditure programs of its subsidiaries.

For the three months ended March 31, 2015, PPL Electric required $28 million more cash from financing activities. In the first quarter of 2014, PPL Electric financed its capital expenditures program with proceeds from a $150 million note with an affiliate. In the first quarter of 2015, PPL Electric financed its capital expenditures program with cash-on-hand and additional short-term debt.

See Note 7 to the Financial Statements in this Form 10-Q for information on 2015 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2014 Form 10-K for information on 2014 activity.

## Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At March 31, 2015, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

*External (All Registrants)*

| | Committed Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity |
|---|---|---|---|---|
| PPL Capital Funding Credit Facilities | $ 750 | | $ 32 | $ 718 |
| PPL Energy Supply Credit Facility | 3,000 | $ 600 | 267 | 2,133 |
| PPL Electric Credit Facility | 300 | | 86 | 214 |
| LKE Credit Facility | 75 | 75 | | |
| LG&E Credit Facility | 500 | | 216 | 284 |
| KU Credit Facilities | 598 | | 391 | 207 |
| Total LKE | 1,173 | 75 | 607 | 491 |
| Total U.S. Credit Facilities (a) | $ 5,223 | $ 675 | $ 992 | $ 3,556 |
| Total U.K. Credit Facilities (b) | £ 1,055 | £ 277 | | £ 778 |

(a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 7%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.

(b) The amounts borrowed at March 31, 2015 were USD-denominated borrowings of $200 million and GPB-denominated borrowings which equated to $226 million. At March 31, 2015, the USD equivalent of unused capacity under the U.K. committed credit facilities was $1.2 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 14% of the total committed capacity.

As a result of the proposed spinoff transaction, PPL Energy Supply has syndicated a $1.85 billion credit facility which is currently fully committed. This syndicated credit facility will replace the existing $3 billion PPL Energy Supply syndicated credit facility and will be effective upon closing of the spinoff transaction. See "Overview - Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" above for additional information.

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

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

| | Committed Capacity | Borrowed | Other Used Capacity | Unused Capacity |
|---|---|---|---|---|
| LKE Credit Facility | $ 225 | $ 40 | | $ 185 |
| LG&E Money Pool (a) | 500 | | $ 216 | 284 |
| KU Money Pool (a) | 500 | | 193 | 307 |

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

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

## Commercial Paper *(All Registrants)*

PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at March 31, 2015:

| | Capacity | Commercial Paper Issuances | Unused Capacity |
|---|---|---|---|
| PPL Electric | $ 300 | $ 85 | $ 215 |
| LG&E | 350 | 216 | 134 |
| KU | 350 | 193 | 157 |
| Total LKE | 700 | 409 | 291 |
| Total PPL | $ 1,000 | $ 494 | $ 506 |

## Common Stock Dividends *(PPL)*

In February 2015, PPL declared its quarterly common stock dividend, payable April 1, 2015, at 37.25 cents per share (equivalent to $1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

## Rating Agency Actions

*(All Registrants)*

Moody's, S&P and Fitch have periodically reviewed 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, S&P and Fitch 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.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2015:

In January 2015, Fitch withdrew its ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, and KU.

<u>Ratings Triggers</u>

*(All Registrants except PPL Electric)*

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 14 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 March 31, 2015.

*(All Registrants)*

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2014 Form 10-K.

**Risk Management**

<u>Market Risk</u>

*(All Registrants)*

See Notes 13 and 14 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 disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

*Commodity Price Risk (Non-trading)*

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

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of their business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional information.

*(PPL and PPL Electric)*

PPL Electric is exposed to market price and volumetric risks from its obligation as a PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its

PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

*(PPL)*

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2020.

The following tables sets forth the changes in the net fair value of non-trading commodity derivative contracts for the period ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

| | Gains (Losses) Three Months 2015 | Gains (Losses) Three Months 2014 |
|---|---|---|
| Fair value of contracts outstanding at the beginning of the period | $ 53 | $ 107 |
| Contracts realized or otherwise settled during the period | 133 | 505 |
| Fair value of new contracts entered into during the period (a) | (5) | (16) |
| Other changes in fair value | (92) | (737) |
| Fair value of contracts outstanding at the end of the period | $ 89 | $ (141) |

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at March 31, 2015, based on the observability of the information used to determine the fair value.

| | Net Asset (Liability) | | | | |
|---|---|---|---|---|---|
| **Source of Fair Value** | **Maturity Less Than 1 Year** | **Maturity 1-3 Years** | **Maturity 4-5 Years** | **Maturity in Excess of 5 Years** | **Total Fair Value** |
| Prices based on significant observable inputs (Level 2) | $ 53 | $ (34) | $ 13 | | $ 32 |
| Prices based on significant unobservable inputs (Level 3) | 32 | 23 | 2 | | 57 |
| Fair value of contracts outstanding at the end of the period | $ 85 | $ (11) | $ 15 | | $ 89 |

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

*Commodity Price Risk (Trading)*

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

| | Gains (Losses) Three Months 2015 | 2014 |
|---|---|---|
| Fair value of contracts outstanding at the beginning of the period | $ 48 | $ 11 |
| Contracts realized or otherwise settled during the period | (30) | |
| Fair value of new contracts entered into during the period (a) | (7) | (13) |
| Other changes in fair value | 35 | 33 |
| Fair value of contracts outstanding at the end of the period | $ 46 | $ 31 |

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2015, based on the observability of the information used to determine the fair value.

| | Net Asset (Liability) | | | | |
|---|---|---|---|---|---|
| | Maturity Less Than 1 Year | Maturity 1-3 Years | Maturity 4-5 Years | Maturity in Excess of 5 Years | Total Fair Value |
| **Source of Fair Value** | | | | | |
| Prices based on significant observable inputs (Level 2) | $ (6) | $ (11) | $ (9) | | $ (26) |
| Prices based on significant unobservable inputs (Level 3) | 4 | 33 | 33 | $ 2 | 72 |
| Fair value of contracts outstanding at the end of the period | $ (2) | $ 22 | $ 24 | $ 2 | $ 46 |

*VaR Models*

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is 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. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the three months ended March 31, 2015 was as follows.

| | Trading | Non-Trading |
|---|---|---|
| 95% Confidence Level, Five-Day Holding Period | | |
| Period End | $ 4 | $ 12 |
| Average for the Period | 4 | 10 |
| High | 4 | 12 |
| Low | 4 | 8 |

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2015.

*Interest Rate Risk (All Registrants)*

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.

The following interest rate hedges were outstanding at March 31, 2015.

| | Exposure Hedged | Fair Value, Net - Asset (Liability) (a) | Effect of a 10% Adverse Movement in Rates (b) | Maturities Ranging Through |
|---|---|---|---|---|
| **PPL** | | | | |
| Cash flow hedges | | | | |
| Interest rate swaps (c) | $ 1,600 | $ (183) | $ (54) | 2045 |
| Cross-currency swaps (d) | 1,262 | 47 | (162) | 2028 |
| Economic hedges | | | | |
| Interest rate swaps (e) | 179 | (52) | (3) | 2033 |
| **LKE** | | | | |
| Cash flow hedges | | | | |
| Interest rate swaps (c) | 1,000 | (122) | (40) | 2045 |
| Economic hedges | | | | |
| Interest rate swaps (e) | 179 | (52) | (3) | 2033 |
| **LG&E** | | | | |
| Cash flow hedges | | | | |
| Interest rate swaps (c) | 500 | (61) | (20) | 2045 |
| Economic hedges | | | | |
| Interest rate swaps (e) | 179 | (52) | (3) | 2033 |
| **KU** | | | | |
| Cash flow hedges | | | | |
| Interest rate swaps (c) | 500 | (61) | (20) | 2045 |

(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 foreign currency exchange rates.
(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recoverable through regulated rates, and reclassified into earnings in the same period during which the item being hedged affects earnings.
(d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. 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.
(e) 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 at March 31, 2015 is shown below.

| | PPL | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| Increase in interest expense | Not Significant | Not Significant | Not Significant | Not Significant | Not Significant |
| Increase in fair value of debt | $ 662 | $ 128 | $ 133 | $ 43 | $ 79 |

*Foreign Currency Risk (PPL)*

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

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 earnings.

The following foreign currency hedges were outstanding at March 31, 2015.

| | Exposure Hedged | Fair Value, Net - Asset (Liability) | Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a) | Maturities Ranging Through |
|---|---|---|---|---|
| Net investment hedges (b) | £ 217 | $ 34 | $ (32) | 2016 |
| Economic hedges (c) | 1,306 | 169 | (177) | 2017 |

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars.

*NDT Funds - Securities Price Risk (PPL)*

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At March 31, 2015, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At March 31, 2015, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $74 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2014 Form 10-K for additional information.

### Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of $77 million for the three months ended March 31, 2015, which primarily reflected a $199 million decrease to PP&E and goodwill offset by a decrease of $122 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation gain of $135 million for the three months ended March 31, 2014, which primarily reflected a $334 million increase to PP&E and goodwill offset by an increase of $199 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

### Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

### Acquisitions, Development and Divestitures

*(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. 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 anticipated spinoff of PPL Energy Supply and the completed Montana hydro sale.

### Environmental Matters

*(All Registrants except PPL Electric)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL'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 material. 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.

The following is a discussion of the more significant environmental matters. See Note 10 to the Financial Statements and "Item 1. Business - Environmental Matters" for additional information on environmental matters.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing GHG emissions in the U.S. through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the U.S. to prepare for the impacts of climate change. Requirements related to this plan could affect the Registrants and others in the industry as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. As further described below, the EPA has proposed rules pursuant to this directive, which it expects to finalize in the second or third quarter of 2015. The EPA has also announced that it will develop a federal implementation plan which would apply to any states that fail to submit an acceptable state implementation plan. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act when the sources are already regulated under Section 112 is under challenge in the D.C. Circuit Court. Oral arguments were heard on April 16, 2015.

In January 2014, the EPA issued a revised proposal to regulate carbon dioxide emissions from new power plants. The proposed limits for coal-fired plants can only be achieved through carbon capture and sequestration, a technology that is not presently commercially viable and, therefore, effectively preclude the construction of new coal-fired plants. The proposed standards for new gas-fired plants may also not be continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

In June 2014, the EPA issued a proposed regulation addressing carbon dioxide emissions from existing power plants. The existing plant proposal contains stringent, state-specific rate-based reduction goals to be achieved in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the type of plan filed (single or multi-state). PPL has analyzed the proposal and identified potential impacts and solutions in comments filed on December 1, 2014. PPL also submitted Supplemental Comments to FERC through EEI, advocating for reliability coordination and relief in response to technical conferences hosted by FERC on the reliability implications of implementing this rule. The regulation of carbon dioxide emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

Waters of the United States (WOTUS)

In April 2014, the EPA and the U.S. Army Corps of Engineers published a proposed rule that could greatly expand the Clean Water Act definition of Waters of the United States. If the definition is expanded as proposed, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The EPA plans to make certain changes to the proposed regulation based on comments received. The U.S. House and Senate are considering legislation to block this regulation. Until a final rule is issued, the Registrants cannot predict the outcome of the pending rulemaking. A final rule is expected by summer 2015.

Coal Combustion Residuals (CCRs)

On April 17, 2015, the EPA published its final rule regulating CCRs, imposing extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. The CCR rule will become effective on October 14, 2015. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable through citizen suits. PPL expects that its plants using surface impoundments for management and disposal of CCRs or the past management of CCRs and continued use to manage waste waters will be most impacted by this rule. The rule's requirements for covered CCR impoundments and landfills include commencement or completion of closure activities generally between three and ten years from certain triggering events. PPL, LKE, LG&E and KU also anticipate incurring capital or operation and maintenance costs prior to that time to address other provisions of the rule, such as groundwater monitoring and disposal facility modifications, or to implement various compliance strategies.

PPL, LKE, LG&E and KU are reviewing the rule and are still evaluating its financial and operational impact. It is expected that these requirements will result in increases to existing AROs which will be recorded in the second quarter of 2015. PPL, LKE, LG&E and KU are not yet able to determine an estimate of the expected increases to the existing AROs. PPL, LKE, LG&E and KU believe relevant costs relating to this rule are subject to future rate recovery before the respective state regulatory agencies, or the FERC, as applicable.

Effluent Limitation Guidelines (ELGs) and Standards
In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized as proposed. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued by the third or fourth quarter of 2015. At the present time, PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could vary significantly from the current capital expenditures projections and costs could be imposed ahead of federal timelines.

Clean Water Act 316(b)
The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed considerable authority to make site-specific determinations under the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Mill Creek Unit 1 and Brunner Island (all units) are the only units expected to be impacted. PPL, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

MATS
In February 2012, the EPA finalized the MATS rule requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule was challenged by industry groups and states, and was upheld by the D.C. Circuit Court in April 2014. A group of states subsequently petitioned the U.S. Supreme Court to review this decision and on March 25, 2015, oral arguments were heard as to one issue - whether or not EPA unreasonably refused to consider costs when determining whether the MATS regulation was appropriate and necessary. A U.S. Supreme Court decision is expected by June 30, 2015. The rule provides for a three-year compliance deadline with the potential for one- and two-year extensions as provided under the statute. PPL, LKE, LG&E and KU have completed installation or upgrading of relevant environmental controls at affected plants or have received compliance extensions, as applicable.

PPL believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants in Pennsylvania, the capital cost of which is not expected to be significant. PPL continues to analyze the potential impact of MATS on operating costs. With respect to PPL's Montana plants, modifications to the air pollution controls installed at Colstrip are required, the cost of which is not expected to be significant. Operations were suspended and the Corette plant was retired in March 2015 due to expected market conditions and the costs to comply with the MATS requirements.

LG&E's March 2015 retirement of one coal-fired generating unit at Cane Run and LG&E's and KU's anticipated retirement of remaining coal-fired electricity generating units located at Cane Run and Green River in 2015 and 2016 are in response to MATS and other environmental regulations. The retirement of these units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E or KU.

CSAPR
The EPA's CSAPR addresses the interstate transport of fine particulates and ozone by regulating emissions of sulfur dioxide and nitrogen oxide. In accordance with an October 2014 U.S. Court of Appeals decision, CSAPR establishes interstate allowance trading programs for sulfur dioxide and nitrogen oxide emissions from fossil-fueled plants in two phases: Phase 1 commenced in January 2015 and Phase 2 commences in 2017. Sulfur dioxide emissions are subject to an annual trading

program and nitrogen oxide emissions are subject to annual and ozone season programs. Oral arguments pertaining to outstanding challenges to the EPA's CSAPR were heard before the D.C. Circuit Court during February 2015.

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

Regional Haze
Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. To date, the focus of regional haze regulation has been on the western U.S. As for the eastern U.S., the EPA determined that region-wide reductions under the CSAPR trading program could, in most instances, be utilized under state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, the EPA's determination is being challenged by environmental groups and others.

LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a regional haze impact. These reductions are required in the regional haze state implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA finalized a Federal Implementation Plan (FIP) of the Regional Haze Rules in September 2012, with stricter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and stricter emission limits for the Corette plant (which are not based on additional controls). The cost of the additional controls for Colstrip Units 1 & 2 could be significant. PPL Energy Supply was meeting the stricter permit limits at Corette without any significant changes to operations, although other requirements led to the suspension of operations and the retirement of Corette in March 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

National Ambient Air Quality Standards
In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies (RACT). The PADEP is finalizing a RACT rule in 2015 requiring some fossil-fueled plants to operate at more stringent nitrogen oxide emission rates. The EPA proposed to further strengthen the ozone standard in November 2014, which could lead to further nitrogen oxide reductions for PPL's fossil-fueled plants within the OTR. The EPA is under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another states' non-attainment. The EPA recently sent a policy memo to state agencies to facilitate the development of these plans for the 2008 standard, including modeling data showing which states are contributing. The implementation of such plans could have an impact on the structure and stringency of CSAPR Phase 2 reductions (discussed above), or it could lead to the development of a new ozone transport rule. Non-OTR states, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be determined at this time.

In 2010, the EPA finalized a new, more stringent ambient air standard for sulfur dioxide and required states to identify areas that meet the standard 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 and part of Yellowstone County in Montana. Attainment is due for both areas by 2018. Pursuant to a consent decree between the EPA and Sierra Club approved on March 2, 2015, states are working to finalize designations for other areas by the 2017 or 2020 deadline depending on which designation methodology is used. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR, the MATS, or the Regional Haze Rules (as discussed above), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment is not expected to be significant, as the plant's operations were suspended and the plant was retired in March 2015. In addition, MDEQ submitted a request to the EPA for a determination that this area is in attainment. If the EPA agrees with this request, then the deadlines associated with non-attainment would be suspended.

In December 2012, the EPA finalized a new, more stringent, annual National Ambient Air Quality Standard for fine particulates. The rules were challenged by the D.C. Circuit Court and upheld in May 2014. Final designations for the 2012 particulate standard were published in January 2015. Non-attainment areas in Pennsylvania and Kentucky were identified; however, EPA recently approved state implementation plan revisions for both states that improved these classifications. PPL Energy Supply, LG&E and KU plants in Pennsylvania and Kentucky will not be expected to make further reductions towards achieving attainment.

## New Accounting Guidance *(All Registrants)*

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2014 Form 10-K for a discussion of each critical accounting policy.

| | PPL | PPL Electric | LKE | LG&E | KU |
|---|---|---|---|---|---|
| Defined Benefits | X | X | X | X | X |
| Loss Accruals | X | X | X | X | X |
| Income Taxes | X | X | X | X | X |
| Asset Impairments (Excluding Investments) | X | | X | X | X |
| AROs | X | | X | X | X |
| Price Risk Management | X | | X | X | X |
| Regulatory Assets and Liabilities | X | X | X | X | X |
| Revenue Recognition - unbilled revenue | | X | X | X | X |

**PPL Corporation**
**PPL Electric Utilities Corporation**
**LG&E and KU Energy LLC**
**Louisville Gas and Electric Company**
**Kentucky Utilities Company**

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2015, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

**PPL Corporation**

Following the announcement of the transaction to spin off PPL Energy Supply, LLC to form Talen Energy, management determined the appropriate staffing for Talen Energy and for PPL and its subsidiaries. During the three months ended March 31, 2015, staffing changes, including the consolidation of certain positions and transition of responsibilities, resulted in changes in certain individuals responsible for executing internal controls. However, changes to system applications, business processes and the associated internal controls were not significant. Management has taken steps to minimize the risk from the changes in individuals executing internal controls.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2014 Form 10-K; and
- Notes 6 and 10 to the Financial Statements.

## Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2014 Form 10-K.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

| | |
|---|---|
| 1(a) | - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015) |
| 1(b) | - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015) |
| *1(c) | - Final Terms of the Western Power Distribution (East Midlands) plc £25,000,000 1.676% Index Linked Notes due September 24, 2052 under the £3,000,000,000 Euro Medium Term Note Programme |
| *[_]10(a) | - Service Agreement, dated March 16, 2015, between Western Power Distribution (South West) plc and Robert A. Symons |
| *[_]10(b) | - Amendment No. 6 to PPL Corporation Directors Deferred Compensation Plan, dated as of April 15, 2015 |
| *12(a) | - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends |
| *12(b) | - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends |
| *12(c) | - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges |
| *12(d) | - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges |
| *12(e) | - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges |

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2015, filed by the following officers for the following companies:

| | |
|---|---|
| *31(a) | - PPL Corporation's principal executive officer |
| *31(b) | - PPL Corporation's principal financial officer |
| *31(c) | - PPL Electric Utilities Corporation's principal executive officer |
| *31(d) | - PPL Electric Utilities Corporation's principal financial officer |
| *31(e) | - LG&E and KU Energy LLC's principal executive officer |
| *31(f) | - LG&E and KU Energy LLC's principal financial officer |
| *31(g) | - Louisville Gas and Electric Company's principal executive officer |
| *31(h) | - Louisville Gas and Electric Company's principal financial officer |
| *31(i) | - Kentucky Utilities Company's principal executive officer |
| *31(j) | - Kentucky Utilities Company's principal financial officer |

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2015, furnished by the following officers for the following companies:

| | |
|---|---|
| *32(a) | - PPL Corporation's principal executive officer and principal financial officer |
| *32(b) | - PPL Electric Utilities Corporation's principal executive officer and principal financial officer |
| *32(c) | - LG&E and KU Energy LLC's principal executive officer and principal financial officer |
| *32(d) | - Louisville Gas and Electric Company's principal executive officer and principal financial officer |
| *32(e) | - Kentucky Utilities Company's principal executive officer and principal financial officer |

| | |
|---|---|
| 101.INS | - XBRL Instance Document |
| 101.SCH | - XBRL Taxonomy Extension Schema |
| 101.CAL | - XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | - XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | - XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | - XBRL Taxonomy Extension Presentation Linkbase |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

**PPL Corporation**
(Registrant)

Date: May 7, 2015

/s/ Stephen K. Breininger
Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

**PPL Electric Utilities Corporation**
(Registrant)

Date: May 7, 2015

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)

**LG&E and KU Energy LLC**
(Registrant)

**Louisville Gas and Electric Company**
(Registrant)

**Kentucky Utilities Company**
(Registrant)

Date: May 7, 2015

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

Exhibit 12(a)

## PPL CORPORATION AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

*(Millions of Dollars)*

| | 3 Months Ended March 31, 2015 | Years Ended December 31, 2014(a) | 2013(a) | 2012(a) | 2011(a) | 2010(a) |
|---|---|---|---|---|---|---|
| Earnings, as defined: | | | | | | |
| Income from Continuing Operations Before Income Taxes (b) | $ 915 | $ 2,364 | $ 1,260 | $ 2,009 | $ 2,050 | $ 1,218 |
| Adjustment to reflect earnings from equity method investments on a cash basis (c) | (2) | | | 34 | 1 | 7 |
| | 913 | 2,364 | 1,260 | 2,043 | 2,051 | 1,225 |
| Total fixed charges as below | 258 | 1,095 | 1,096 | 1,065 | 1,022 | 698 |
| Less: | | | | | | |
| Capitalized interest | 6 | 33 | 46 | 43 | 42 | 24 |
| Preferred security distributions of subsidiaries on a pre-tax basis | | | | 5 | 23 | 21 |
| Interest expense and fixed charges related to discontinued operations | | 10 | 14 | 12 | 6 | 34 |
| Total fixed charges included in Income from Continuing Operations Before Income Taxes | 252 | 1,052 | 1,036 | 1,005 | 951 | 619 |
| Total earnings | $ 1,165 | $ 3,416 | $ 2,296 | $ 3,048 | $ 3,002 | $ 1,844 |
| Fixed charges, as defined: | | | | | | |
| Interest charges (d) | $ 255 | $ 1,073 | $ 1,058 | $ 1,019 | $ 955 | $ 637 |
| Estimated interest component of operating rentals | 3 | 22 | 38 | 41 | 44 | 39 |
| Preferred security distributions of subsidiaries on a pre-tax basis | | | | 5 | 23 | 21 |
| Fixed charges of majority-owned share of 50% or less-owned persons | | | | | | 1 |
| Total fixed charges (e) | $ 258 | $ 1,095 | $ 1,096 | $ 1,065 | $ 1,022 | $ 698 |
| Ratio of earnings to fixed charges | 4.5 | 3.1 | 2.1 | 2.9 | 2.9 | 2.6 |
| Ratio of earnings to combined fixed charges and preferred stock dividends (f) | 4.5 | 3.1 | 2.1 | 2.9 | 2.9 | 2.6 |

(a) Years 2010 through 2014 reflect the reclassification of certain PPL Montana hydroelectric generating facilities and related assets as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

(b) To facilitate the sale of the hydroelectric generating facilities referred to in (a) above, in December 2013, PPL Montana terminated a lease agreement which resulted in a $697 million charge. See Note 8 to the Financial Statements in PPL's 2014 Form 10-K for additional information.

(c) Includes other-than-temporary impairment loss of $25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(e) Interest on unrecognized tax benefits is not included in fixed charges.

(f) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

## PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

### COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

*(Millions of Dollars)*

| | 3 Months Ended March 31, | Years Ended December 31, | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| Earnings, as defined: | | | | | | |
| Income Before Income Taxes | $ 146 | $ 423 | $ 317 | $ 204 | $ 257 | $ 192 |
| Total fixed charges as below | 33 | 131 | 117 | 107 | 105 | 102 |
| Total earnings | $ 179 | $ 554 | $ 434 | $ 311 | $ 362 | $ 294 |
| Fixed charges, as defined: | | | | | | |
| Interest charges (a) | $ 32 | $ 127 | $ 113 | $ 104 | $ 102 | $ 101 |
| Estimated interest component of operating rentals | 1 | 4 | 4 | 3 | 3 | 1 |
| Total fixed charges (b) | $ 33 | $ 131 | $ 117 | $ 107 | $ 105 | $ 102 |
| Ratio of earnings to fixed charges | 5.4 | 4.2 | 3.7 | 2.9 | 3.4 | 2.9 |
| Preferred stock dividend requirements on a pre-tax basis | | | | $ 6 | $ 21 | $ 23 |
| Fixed charges, as above | $ 33 | $ 131 | $ 117 | 107 | 105 | 102 |
| Total fixed charges and preferred stock dividends | $ 33 | $ 131 | $ 117 | $ 113 | $ 126 | $ 125 |
| Ratio of earnings to combined fixed charges and preferred stock dividends | 5.4 | 4.2 | 3.7 | 2.8 | 2.9 | 2.4 |

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(c)

## LG&E AND KU ENERGY LLC AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

*(Millions of Dollars)*

| | Successor (a) | | | | | | Predecessor (b) |
|---|---|---|---|---|---|---|---|
| | 3 Months Ended Mar. 31, 2015 | Year Ended Dec. 31, 2014 | Year Ended Dec. 31, 2013 | Year Ended Dec. 31, 2012 | Year Ended Dec. 31, 2011 | 2 Months Ended Dec. 31, 2010 | 10 Months Ended Oct. 31, 2010 |
| Earnings, as defined: | | | | | | | |
| Income from Continuing Operations Before Income Taxes | $ 193 | $ 553 | $ 551 | $ 331 | $ 419 | $ 70 | $ 300 |
| Adjustment to reflect earnings from equity method investments on a cash basis (c) | (2) | (1) | (1) | 33 | (1) | | (4) |
| Mark to market impact of derivative instruments | | | | | | 2 | (20) |
| | 191 | 552 | 550 | 364 | 418 | 72 | 276 |
| Total fixed charges as below | 44 | 173 | 151 | 157 | 153 | 25 | 158 |
| Total earnings | $ 235 | $ 725 | $ 701 | $ 521 | $ 571 | $ 97 | $ 434 |
| Fixed charges, as defined: | | | | | | | |
| Interest charges (d) (e) | $ 42 | $ 167 | $ 145 | $ 151 | $ 147 | $ 24 | $ 153 |
| Estimated interest component of operating rentals | 2 | 6 | 6 | 6 | 6 | 1 | 5 |
| Total fixed charges | $ 44 | $ 173 | $ 151 | $ 157 | $ 153 | $ 25 | $ 158 |
| Ratio of earnings to fixed charges | 5.3 | 4.2 | 4.6 | 3.3 | 3.7 | 3.9 | 2.7 |

(a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of $25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(e) Includes a credit for amortization of a fair market value adjustment of $7 million in 2013.

Exhibit 12(d)

# LOUISVILLE GAS AND ELECTRIC COMPANY

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

*(Millions of Dollars)*

| | Successor (a) | | | | | | Predecessor (b) |
|---|---|---|---|---|---|---|---|
| | 3 Months Ended Mar. 31, 2015 | Year Ended Dec. 31, 2014 | Year Ended Dec. 31, 2013 | Year Ended Dec. 31, 2012 | Year Ended Dec. 31, 2011 | 2 Months Ended Dec. 31, 2010 | 10 Months Ended Oct. 31, 2010 |
| Earnings, as defined: | | | | | | | |
| Income Before Income Taxes | $ 86 | $ 272 | $ 257 | $ 192 | $ 195 | $ 29 | $ 167 |
| Mark to market impact of derivative instruments | | | | | | 1 | (20) |
| | 86 | 272 | 257 | 192 | 195 | 30 | 147 |
| Total fixed charges as below | 14 | 51 | 36 | 44 | 46 | 8 | 40 |
| Total earnings | $ 100 | $ 323 | $ 293 | $ 236 | $ 241 | $ 38 | $ 187 |
| Fixed charges, as defined: | | | | | | | |
| Interest charges (c) (d) | $ 13 | $ 49 | $ 34 | $ 42 | $ 44 | $ 8 | $ 38 |
| Estimated interest component of operating rentals | 1 | 2 | 2 | 2 | 2 | | 2 |
| Total fixed charges | $ 14 | $ 51 | $ 36 | $ 44 | $ 46 | $ 8 | $ 40 |
| Ratio of earnings fixed charges | 7.1 | 6.3 | 8.1 | 5.4 | 5.2 | 4.8 | 4.7 |

(a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(d) Includes a credit for amortization of a fair market value adjustment of $7 million in 2013.

Exhibit 12(e)

# KENTUCKY UTILITIES COMPANY

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

*(Millions of Dollars)*

| | Successor (a) | | | | | | Predecessor (b) |
|---|---|---|---|---|---|---|---|
| | 3 Months Ended Mar. 31, 2015 | Year Ended Dec. 31, 2014 | Year Ended Dec. 31, 2013 | Year Ended Dec. 31, 2012 | Year Ended Dec. 31, 2011 | 2 Months Ended Dec. 31, 2010 | 10 Months Ended Oct. 31, 2010 |
| Earnings, as defined: | | | | | | | |
| Income Before Income Taxes | $ 125 | $ 355 | $ 360 | $ 215 | $ 282 | $ 55 | $ 218 |
| Adjustment to reflect earnings from equity method investments on a cash basis (c) | (2) | (1) | (1) | 33 | (1) | | (4) |
| | 123 | 354 | 359 | 248 | 281 | 55 | 214 |
| Total fixed charges as below | 20 | 80 | 73 | 72 | 73 | 11 | 71 |
| Total earnings | $ 143 | $ 434 | $ 432 | $ 320 | $ 354 | $ 66 | $ 285 |
| Fixed charges, as defined: | | | | | | | |
| Interest charges (d) | $ 19 | $ 77 | $ 70 | $ 69 | $ 70 | $ 10 | $ 69 |
| Estimated interest component of operating rentals | 1 | 3 | 3 | 3 | 3 | 1 | 2 |
| Total fixed charges | $ 20 | $ 80 | $ 73 | $ 72 | $ 73 | $ 11 | $ 71 |
| Ratio of earnings to fixed charges | 7.2 | 5.4 | 5.9 | 4.4 | 4.8 | 6.0 | 4.0 |

(a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of $25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 31(a)

# CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

Exhibit 31(b)

## CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Vincent Sorgi
Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

## CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

Exhibit 31(d)

# CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

Exhibit 31(e)

# CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

Exhibit 31(f)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

Exhibit 31(g)

# CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

Exhibit 31(h)

## CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

Exhibit 31(i)

## CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

Exhibit 31(j)

# CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

Exhibit 32(a)

# CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi
Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

# CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

# CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

# SEC Form 10-Q

# June 30, 2015

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

## FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2015

OR

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

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| PPL Corporation | Common stock, $0.01 par value, 669,969,737 shares outstanding at July 24, 2015. |
| PPL Electric Utilities Corporation | Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 24, 2015. |
| LG&E and KU Energy LLC | PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC. |
| Louisville Gas and Electric Company | Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 24, 2015. |
| Kentucky Utilities Company | Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 24, 2015. |

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

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

FORM 10-Q
FOR THE QUARTER ENDED June 30, 2015

Table of Contents

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

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

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## GLOSSARY OF TERMS AND ABBREVIATIONS

### ***PPL Corporation and its subsidiaries***

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

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

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

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

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

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

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

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

***PPL EU Services*** - PPL EU Services Corporation, a subsidiary of PPL that, beginning in 2015, provides support services and corporate functions such as financial, supply chain, human resources and information technology services primarily to PPL Electric and its affiliates.

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

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

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

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

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

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

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

***WPD plc*** - Western Power Distribution plc, formerly known as Western Power Distribution Limited, an indirect U.K. subsidiary of PPL Global. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

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

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

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

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

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

## ***Other terms and abbreviations***

**£** - British pound sterling.

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

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

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

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

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

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

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

***Cane Run Unit 7*** - a natural gas combined-cycle unit in Kentucky, jointly owned by LG&E and KU, which provides electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***LIBOR*** - London Interbank Offered Rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***RJS Power*** - RJS Generation Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business contributed by its owners to Talen Energy other than the competitive power generation business contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

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

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

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

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

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

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

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

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

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

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

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

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

***Tolling agreement*** - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

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

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

***VaR*** - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

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

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

## FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2014 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting customer energy use;
- availability of existing generation facilities;
- the duration of and cost associated with unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- the effectiveness of our risk management techniques, including hedging;
- our ability to attract and retain qualified employees;
- volatility in market demand and prices for energy and transmission services;
- competition in retail and wholesale power and natural gas markets;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions.

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

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

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

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

(Unaudited)
*(Millions of Dollars, except share data)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Operating Revenues** | | | | |
| Utility | $ **1,765** | $ 1,830 | $ **3,979** | $ 3,992 |
| Energy-related businesses | **16** | 19 | **32** | 35 |
| Total Operating Revenues | **1,781** | 1,849 | **4,011** | 4,027 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **214** | 232 | **467** | 508 |
| Energy purchases | **170** | 171 | **499** | 510 |
| Other operation and maintenance | **454** | 447 | **897** | 887 |
| Depreciation | **216** | 230 | **432** | 455 |
| Taxes, other than income | **76** | 77 | **162** | 160 |
| Energy-related businesses | **13** | 14 | **26** | 28 |
| Total Operating Expenses | **1,143** | 1,171 | **2,483** | 2,548 |
| **Operating Income** | **638** | 678 | **1,528** | 1,479 |
| Other Income (Expense) - net | **(102)** | (74) | **(14)** | (103) |
| Interest Expense | **215** | 208 | **424** | 424 |
| **Income from Continuing Operations Before Income Taxes** | **321** | 396 | **1,090** | 952 |
| Income Taxes | **71** | 166 | **288** | 333 |
| **Income from Continuing Operations After Income Taxes** | **250** | 230 | **802** | 619 |
| Income (Loss) from Discontinued Operations (net of income taxes) (Note 8) | **(1,007)** | (1) | **(912)** | (74) |
| **Net Income (Loss)** | $ **(757)** | $ 229 | $ **(110)** | $ 545 |
| **Earnings Per Share of Common Stock:** | | | | |
| Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners: | | | | |
| Basic | $ **0.37** | $ 0.35 | $ **1.20** | $ 0.96 |
| Diluted | $ **0.37** | $ 0.34 | $ **1.19** | $ 0.94 |
| Net Income (Loss) Available to PPL Common Shareowners: | | | | |
| Basic | $ **(1.13)** | $ 0.35 | $ **(0.17)** | $ 0.84 |
| Diluted | $ **(1.13)** | $ 0.34 | $ **(0.17)** | $ 0.83 |
| **Dividends Declared Per Share of Common Stock** | $ **0.3725** | $ 0.3725 | $ **0.7450** | $ 0.7450 |
| **Weighted-Average Shares of Common Stock Outstanding (in thousands)** | | | | |
| Basic | **668,415** | 653,132 | **667,698** | 642,002 |
| Diluted | **671,286** | 665,792 | **670,013** | 664,927 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Net income (loss)** | **$ (757)** | $ 229 | **$ (110)** | $ 545 |
| **Other comprehensive income (loss):** | | | | |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: | | | | |
| Foreign currency translation adjustments, net of tax of $6, $5, $1, $6 | **(83)** | (3) | **(149)** | 128 |
| Available-for-sale securities, net of tax of ($3), ($15), ($9), ($21) | **2** | 14 | **7** | 19 |
| Qualifying derivatives, net of tax of ($11), $4, ($7), $29 | **21** | (1) | **27** | (47) |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $4, $0, $4, $0 | **(6)** | | **(6)** | |
| Net actuarial gain (loss), net of tax of ($36), $2, ($36), $2 | **53** | (2) | **52** | (2) |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit): | | | | |
| Available-for-sale securities, net of tax of $1, $1, $2, $2 | **(1)** | (1) | **(2)** | (2) |
| Qualifying derivatives, net of tax of ($24), $5, ($20), $1 | **27** | (5) | **10** | 14 |
| Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $1, $0 | | | **(1)** | |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $0, ($1), $0, ($2) | | 1 | | 2 |
| Net actuarial loss, net of tax of ($12), ($8), ($25), ($17) | **38** | 28 | **76** | 55 |
| **Total other comprehensive income (loss)** | **51** | 31 | **14** | 167 |
| **Comprehensive income (loss)** | **$ (706)** | $ 260 | **$ (96)** | $ 712 |

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

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

(Unaudited)

*(Millions of Dollars)*

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ (110) | $ 545 |
| Loss from discontinued operations (net of income taxes) | 912 | 74 |
| Income from continuing operations (net of income taxes) | 802 | 619 |
| Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by operating activities - continuing operations | | |
| Depreciation | 432 | 455 |
| Amortization | 27 | 35 |
| Defined benefit plans - expense | 32 | 27 |
| Deferred income taxes and investment tax credits | 256 | 253 |
| Unrealized (gains) losses on derivatives, and other hedging activities | 62 | 69 |
| Adjustment to WPD line loss accrual | | 65 |
| Stock-based compensation expense | 38 | 20 |
| Other | 11 | 1 |
| Change in current assets and current liabilities | | |
| Accounts receivable | (74) | (95) |
| Accounts payable | (83) | (46) |
| Unbilled revenues | 79 | 94 |
| Prepayments | (61) | (19) |
| Taxes payable | (129) | 52 |
| Accrued interest | (87) | (107) |
| Other current liabilities | (91) | (38) |
| Other | 13 | 40 |
| Other operating activities | | |
| Defined benefit plans - funding | (289) | (186) |
| Other assets | (29) | 2 |
| Other liabilities | 61 | 52 |
| Net cash provided by operating activities - continuing operations | 970 | 1,293 |
| Net cash provided by operating activities - discontinued operations | 343 | 290 |
| Net cash provided by operating activities | 1,313 | 1,583 |
| **Cash Flows from Investing Activities** | | |
| **Investing activities from continuing operations:** | | |
| Expenditures for property, plant and equipment | (1,679) | (1,678) |
| Expenditures for intangible assets | (24) | (24) |
| Purchase of other investments | (15) | |
| Proceeds from the sale of other investments | 135 | |
| Net (increase) decrease in restricted cash and cash equivalents | 8 | 7 |
| Other investing activities | | (5) |
| Net cash provided by (used in) investing activities - continuing operations | (1,575) | (1,700) |
| Net cash provided by (used in) investing activities - discontinued operations | (149) | (403) |
| Net cash provided by (used in) investing activities | (1,724) | (2,103) |
| **Cash Flows from Financing Activities** | | |
| **Financing activities from continuing operations:** | | |
| Issuance of long-term debt | 88 | 296 |
| Retirement of long-term debt | | (239) |
| Issuance of common stock | 83 | 1,017 |
| Payment of common stock dividends | (500) | (470) |
| Net increase (decrease) in short-term debt | 276 | (217) |
| Other financing activities | (18) | (38) |
| Net cash provided by (used in) financing activities - continuing operations | (71) | 349 |
| Net cash provided by (used in) financing activities - discontinued operations | (546) | 138 |
| Net cash distributions to parent from discontinued operations | 132 | 184 |
| Net cash provided by (used in) financing activities | (485) | 671 |
| **Effect of Exchange Rates on Cash and Cash Equivalents** | (9) | 16 |
| **Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations** | 352 | (25) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (553) | 142 |
| Cash and Cash Equivalents at Beginning of Period | 1,399 | 863 |
| Cash and Cash Equivalents at End of Period | $ 846 | $ 1,005 |

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

## CONDENSED CONSOLIDATED BALANCE SHEETS
## PPL Corporation and Subsidiaries

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

| | | June 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ | **846** | $ | 1,399 |
| Short-term investments | | | | 120 |
| Accounts receivable (less reserve: 2015, $41; 2014, $44) | | | | |
| Customer | | **737** | | 737 |
| Other | | **106** | | 71 |
| Unbilled revenues | | **431** | | 517 |
| Fuel, materials and supplies | | **315** | | 381 |
| Prepayments | | **136** | | 75 |
| Deferred income taxes | | **159** | | 125 |
| Other current assets | | **140** | | 134 |
| Current assets of discontinued operations | | | | 2,600 |
| Total Current Assets | | **2,870** | | 6,159 |
| **Property, Plant and Equipment** | | | | |
| Regulated utility plant | | **32,990** | | 30,568 |
| Less: accumulated depreciation - regulated utility plant | | **5,480** | | 5,361 |
| Regulated utility plant, net | | **27,510** | | 25,207 |
| Non-regulated property, plant and equipment | | **537** | | 592 |
| Less: accumulated depreciation - non-regulated property, plant and equipment | | **168** | | 162 |
| Non-regulated property, plant and equipment, net | | **369** | | 430 |
| Construction work in progress | | **1,339** | | 2,532 |
| Property, Plant and Equipment, net | | **29,218** | | 28,169 |
| **Other Noncurrent Assets** | | | | |
| Regulatory assets | | **1,569** | | 1,562 |
| Goodwill | | **3,590** | | 3,667 |
| Other intangibles | | **658** | | 668 |
| Other noncurrent assets | | **339** | | 322 |
| Noncurrent assets of discontinued operations | | | | 8,317 |
| Total Other Noncurrent Assets | | **6,156** | | 14,536 |
| **Total Assets** | **$** | **38,244** | $ | 48,864 |

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

## CONDENSED CONSOLIDATED BALANCE SHEETS
## PPL Corporation and Subsidiaries

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ **1,100** | $ 836 |
| Long-term debt due within one year | **1,000** | 1,000 |
| Accounts payable | **902** | 995 |
| Taxes | **130** | 263 |
| Interest | **191** | 298 |
| Dividends | **250** | 249 |
| Customer deposits | **309** | 304 |
| Regulatory liabilities | **137** | 91 |
| Other current liabilities | **490** | 632 |
| Current liabilities of discontinued operations | | 2,775 |
| Total Current Liabilities | **4,509** | 7,443 |
| **Long-term Debt** | **17,103** | 17,173 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **3,538** | 3,227 |
| Investment tax credits | **130** | 132 |
| Accrued pension obligations | **1,078** | 1,457 |
| Asset retirement obligations | **487** | 324 |
| Regulatory liabilities | **977** | 992 |
| Other deferred credits and noncurrent liabilities | **481** | 525 |
| Noncurrent liabilities of discontinued operations | | 3,963 |
| Total Deferred Credits and Other Noncurrent Liabilities | **6,691** | 10,620 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Equity** | | |
| Common stock - $0.01 par value (a) | **7** | 7 |
| Additional paid-in capital | **9,564** | 9,433 |
| Earnings reinvested | **2,654** | 6,462 |
| Accumulated other comprehensive loss | **(2,284)** | (2,274) |
| Total Equity | **9,941** | 13,628 |
| **Total Liabilities and Equity** | $ **38,244** | $ 48,864 |

(a) 780,000 shares authorized; 669,514 and 665,849 shares issued and outstanding at June 30, 2015 and December 31, 2014.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| **March 31, 2015** | 667,713 | $ 7 | $ 9,480 | $ 6,860 | $ (2,311) | $ 14,036 |
| Common stock issued | 1,801 | | 57 | | | 57 |
| Stock-based compensation | | | 27 | | | 27 |
| Net loss | | | | (757) | | (757) |
| Dividends and dividend equivalents | | | | (249) | | (249) |
| Distribution of PPL Energy Supply (Note 8) | | | | (3,200) | (24) | (3,224) |
| Other comprehensive income (loss) | | | | | 51 | 51 |
| **June 30, 2015** | 669,514 | $ 7 | $ 9,564 | $ 2,654 | $ (2,284) | $ 9,941 |
| **December 31, 2014** | 665,849 | $ 7 | $ 9,433 | $ 6,462 | $ (2,274) | $ 13,628 |
| Common stock issued | 3,665 | | 111 | | | 111 |
| Stock-based compensation | | | 20 | | | 20 |
| Net loss | | | | (110) | | (110) |
| Dividends and dividend equivalents | | | | (498) | | (498) |
| Distribution of PPL Energy Supply (Note 8) | | | | (3,200) | (24) | (3,224) |
| Other comprehensive income (loss) | | | | | 14 | 14 |
| **June 30, 2015** | 669,514 | $ 7 | $ 9,564 | $ 2,654 | $ (2,284) | $ 9,941 |
| **March 31, 2014** | 631,417 | $ 6 | $ 8,352 | $ 5,788 | $ (1,429) | $ 12,717 |
| Common stock issued | 32,601 | 1 | 997 | | | 998 |
| Stock-based compensation | | | 9 | | | 9 |
| Net income | | | | 229 | | 229 |
| Dividends and dividend equivalents | | | | (249) | | (249) |
| Other comprehensive income (loss) | | | | | 31 | 31 |
| **June 30, 2014** | 664,018 | $ 7 | $ 9,358 | $ 5,768 | $ (1,398) | $ 13,735 |
| **December 31, 2013** | 630,321 | $ 6 | $ 8,316 | $ 5,709 | $ (1,565) | $ 12,466 |
| Common stock issued | 33,697 | 1 | 1,027 | | | 1,028 |
| Stock-based compensation | | | 15 | | | 15 |
| Net income | | | | 545 | | 545 |
| Dividends and dividend equivalents | | | | (486) | | (486) |
| Other comprehensive income (loss) | | | | | 167 | 167 |
| **June 30, 2014** | 664,018 | $ 7 | $ 9,358 | $ 5,768 | $ (1,398) | $ 13,735 |

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

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Operating Revenues** | $ **476** | $ 449 | $ **1,106** | $ 1,041 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Energy purchases | **138** | 114 | **365** | 303 |
| Energy purchases from affiliate | **5** | 21 | **14** | 48 |
| Other operation and maintenance | **140** | 135 | **273** | 269 |
| Depreciation | **52** | 45 | **103** | 90 |
| Taxes, other than income | **25** | 23 | **60** | 55 |
| Total Operating Expenses | **360** | 338 | **815** | 765 |
| **Operating Income** | **116** | 111 | **291** | 276 |
| Other Income (Expense) - net | **2** | 1 | **4** | 3 |
| Interest Expense | **33** | 29 | **64** | 58 |
| **Income Before Income Taxes** | **85** | 83 | **231** | 221 |
| Income Taxes | **36** | 31 | **95** | 84 |
| **Net Income (a)** | $ **49** | $ 52 | $ **136** | $ 137 |

(a) Net income approximates comprehensive income.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 136** | $ 137 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **103** | 90 |
| Amortization | **14** | 9 |
| Defined benefit plans - expense | **8** | 11 |
| Deferred income taxes and investment tax credits | **39** | 44 |
| Other | **(6)** | (17) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **(24)** | (80) |
| Accounts payable | **(93)** | (33) |
| Unbilled revenues | **25** | 34 |
| Prepayments | **(80)** | (40) |
| Taxes payable | **(55)** | 8 |
| Other | **22** | 2 |
| Other operating activities | | |
| Defined benefit plans - funding | **(33)** | (19) |
| Other assets | **(2)** | 5 |
| Other liabilities | **22** | (3) |
| Net cash provided by operating activities | **76** | 148 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(480)** | (436) |
| Expenditures for intangible assets | **(5)** | (22) |
| Net (increase) decrease in notes receivable from affiliates | | 150 |
| Other investing activities | **2** | 13 |
| Net cash provided by (used in) investing activities | **(483)** | (295) |
| **Cash Flows from Financing Activities** | | |
| Issuance of long-term debt | | 296 |
| Retirement of long-term debt | | (10) |
| Contributions from parent | **160** | 95 |
| Payment of common stock dividends to parent | **(107)** | (87) |
| Net increase (decrease) in short-term debt | **168** | (20) |
| Other financing activities | | (3) |
| Net cash provided by (used in) financing activities | **221** | 271 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(186)** | 124 |
| Cash and Cash Equivalents at Beginning of Period | **214** | 25 |
| Cash and Cash Equivalents at End of Period | **$ 28** | $ 149 |

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

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 28 | $ 214 |
| Accounts receivable (less reserve: 2015, $16; 2014, $17) | | |
| Customer | 343 | 312 |
| Other | 21 | 44 |
| Unbilled revenues | 88 | 113 |
| Materials and supplies | 37 | 43 |
| Prepayments | 90 | 10 |
| Deferred income taxes | 93 | 58 |
| Regulatory assets | 10 | 12 |
| Other current assets | 10 | 13 |
| Total Current Assets | 720 | 819 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | 8,331 | 7,589 |
| Less: accumulated depreciation - regulated utility plant | 2,582 | 2,517 |
| Regulated utility plant, net | 5,749 | 5,072 |
| Construction work in progress | 475 | 738 |
| Property, Plant and Equipment, net | 6,224 | 5,810 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | 946 | 897 |
| Intangibles | 239 | 235 |
| Other noncurrent assets | 42 | 24 |
| Total Other Noncurrent Assets | 1,227 | 1,156 |
| **Total Assets** | $ 8,171 | $ 7,785 |

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

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 168 | |
| Long term debt due within one year | 100 | $ 100 |
| Accounts payable | 308 | 325 |
| Accounts payable to affiliates | 81 | 70 |
| Taxes | 30 | 85 |
| Interest | 34 | 34 |
| Regulatory liabilities | 110 | 76 |
| Other current liabilities | 82 | 103 |
| Total Current Liabilities | 913 | 793 |
| **Long-term Debt** | 2,503 | 2,502 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 1,553 | 1,483 |
| Accrued pension obligations | 147 | 212 |
| Regulatory liabilities | 26 | 18 |
| Other deferred credits and noncurrent liabilities | 76 | 60 |
| Total Deferred Credits and Other Noncurrent Liabilities | 1,802 | 1,773 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Equity** | | |
| Common stock - no par value (a) | 364 | 364 |
| Additional paid-in capital | 1,810 | 1,603 |
| Earnings reinvested | 779 | 750 |
| Total Equity | 2,953 | 2,717 |
| **Total Liabilities and Equity** | $ 8,171 | $ 7,785 |

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

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

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

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | | Common stock | | Additional paid-in capital | | Earnings reinvested | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **March 31, 2015** | 66,368 | $ | 364 | $ | 1,653 | $ | 793 | $ | 2,810 |
| Net income | | | | | | | 49 | | 49 |
| Capital contributions from PPL (b) | | | | | 157 | | | | 157 |
| Dividends declared on common stock | | | | | | | (63) | | (63) |
| **June 30, 2015** | 66,368 | $ | 364 | $ | 1,810 | $ | 779 | $ | 2,953 |
| **December 31, 2014** | 66,368 | $ | 364 | $ | 1,603 | $ | 750 | $ | 2,717 |
| Net income | | | | | | | 136 | | 136 |
| Capital contributions from PPL (b) | | | | | 207 | | | | 207 |
| Dividends declared on common stock | | | | | | | (107) | | (107) |
| **June 30, 2015** | 66,368 | $ | 364 | $ | 1,810 | $ | 779 | $ | 2,953 |
| **March 31, 2014** | 66,368 | $ | 364 | $ | 1,405 | $ | 698 | $ | 2,467 |
| Net income | | | | | | | 52 | | 52 |
| Capital contributions from PPL | | | | | 30 | | | | 30 |
| Dividends declared on common stock | | | | | | | (55) | | (55) |
| **June 30, 2014** | 66,368 | $ | 364 | $ | 1,435 | $ | 695 | $ | 2,494 |
| **December 31, 2013** | 66,368 | $ | 364 | $ | 1,340 | $ | 645 | $ | 2,349 |
| Net income | | | | | | | 137 | | 137 |
| Capital contributions from PPL | | | | | 95 | | | | 95 |
| Dividends declared on common stock | | | | | | | (87) | | (87) |
| **June 30, 2014** | 66,368 | $ | 364 | $ | 1,435 | $ | 695 | $ | 2,494 |

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) Includes non-cash contributions of $47 million.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating Revenues** | **$ 714** | $ 722 | **$ 1,613** | $ 1,656 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **214** | 231 | **467** | 508 |
| Energy purchases | **28** | 36 | **120** | 160 |
| Other operation and maintenance | **214** | 206 | **423** | 412 |
| Depreciation | **94** | 87 | **189** | 173 |
| Taxes, other than income | **15** | 13 | **29** | 26 |
| Total Operating Expenses | **565** | 573 | **1,228** | 1,279 |
| **Operating Income** | **149** | 149 | **385** | 377 |
| Other Income (Expense) - net | **(1)** | (2) | **(2)** | (4) |
| Interest Expense | **42** | 41 | **84** | 83 |
| Interest Expense with Affiliate | **1** | | **1** | |
| **Income Before Income Taxes** | **105** | 106 | **298** | 290 |
| Income Taxes | **45** | 41 | **121** | 110 |
| **Net Income** | **$ 60** | $ 65 | **$ 177** | $ 180 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Net income** | **$ 60** | $ 65 | **$ 177** | $ 180 |
| **Other comprehensive income (loss):** | | | | |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: | | | | |
| Defined benefit plans: | | | | |
| Net actuarial loss, net of tax of $5, $1, $5, $1 | **(8)** | (2) | **(8)** | (2) |
| Reclassification to net income - (gains) losses, net of tax expense (benefit): | | | | |
| Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $1, $0 | | | **(1)** | (1) |
| Defined benefit plans: | | | | |
| Prior service costs, net of tax of $0, $0, $0, $0 | **1** | | **1** | |
| Net actuarial loss, net of tax of ($1), $0, ($1), $0 | | | **1** | |
| **Total other comprehensive income (loss)** | **(7)** | (2) | **(7)** | (3) |
| **Comprehensive income** | **$ 53** | $ 63 | **$ 170** | $ 177 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 177** | $ 180 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **189** | 173 |
| Amortization | **12** | 12 |
| Defined benefit plans - expense | **21** | 12 |
| Deferred income taxes and investment tax credits | **145** | 149 |
| Other | **23** | 1 |
| Change in current assets and current liabilities | | |
| Accounts receivable | **13** | (22) |
| Accounts payable | **10** | (5) |
| Accounts payable to affiliates | | (2) |
| Unbilled revenues | **12** | 27 |
| Fuel, materials and supplies | **54** | 43 |
| Income tax receivable | **136** | (2) |
| Taxes payable | **23** | (10) |
| Other | **(30)** | 1 |
| Other operating activities | | |
| Defined benefit plans - funding | **(63)** | (40) |
| Other assets | **7** | (2) |
| Other liabilities | **(26)** | 2 |
| Net cash provided by operating activities | **703** | 517 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(630)** | (556) |
| Net (increase) decrease in notes receivable from affiliates | | 54 |
| Other investing activities | **4** | |
| Net cash provided by (used in) investing activities | **(626)** | (502) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in notes payable with affiliates | **18** | |
| Net increase (decrease) in short-term debt | **(14)** | 75 |
| Distributions to member | **(109)** | (221) |
| Contributions from member | **20** | 119 |
| Net cash provided by (used in) financing activities | **(85)** | (27) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(8)** | (12) |
| Cash and Cash Equivalents at Beginning of Period | **21** | 35 |
| Cash and Cash Equivalents at End of Period | **$ 13** | $ 23 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 13 | $ 21 |
| Accounts receivable (less reserve: 2015, $23; 2014, $25) | | |
| Customer | 216 | 231 |
| Other | 18 | 18 |
| Unbilled revenues | 155 | 167 |
| Fuel, materials and supplies | 249 | 311 |
| Prepayments | 32 | 28 |
| Income taxes receivable | | 136 |
| Deferred income taxes | 42 | 16 |
| Regulatory assets | 24 | 25 |
| Other current assets | 7 | 3 |
| Total Current Assets | 756 | 956 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | 11,349 | 10,014 |
| Less: accumulated depreciation - regulated utility plant | 1,040 | 1,069 |
| Regulated utility plant, net | 10,309 | 8,945 |
| Construction work in progress | 725 | 1,559 |
| Property, Plant and Equipment, net | 11,034 | 10,504 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | 623 | 665 |
| Goodwill | 996 | 996 |
| Other intangibles | 148 | 174 |
| Other noncurrent assets | 91 | 101 |
| Total Other Noncurrent Assets | 1,858 | 1,936 |
| **Total Assets** | $ 13,648 | $ 13,396 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 561 | $ 575 |
| Long-term debt due within one year | 900 | 900 |
| Notes payable with affiliates | 59 | 41 |
| Accounts payable | 346 | 399 |
| Accounts payable to affiliates | 8 | 2 |
| Customer deposits | 52 | 52 |
| Taxes | 59 | 36 |
| Price risk management liabilities | 5 | 5 |
| Price risk management liabilities with affiliates | 46 | 66 |
| Regulatory liabilities | 27 | 15 |
| Interest | 24 | 23 |
| Other current liabilities | 113 | 131 |
| Total Current Liabilities | 2,200 | 2,245 |
| **Long-term Debt** | 3,667 | 3,667 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 1,406 | 1,241 |
| Investment tax credits | 129 | 131 |
| Accrued pension obligations | 274 | 305 |
| Asset retirement obligations | 437 | 274 |
| Regulatory liabilities | 951 | 974 |
| Price risk management liabilities | 40 | 43 |
| Other deferred credits and noncurrent liabilities | 215 | 268 |
| Total Deferred Credits and Other Noncurrent Liabilities | 3,452 | 3,236 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Member's equity** | 4,329 | 4,248 |
| **Total Liabilities and Equity** | $ 13,648 | $ 13,396 |

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

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

(Unaudited)
*(Millions of Dollars)*

| | | Member's Equity |
|---|---|---|
| **March 31, 2015** | $ | 4,342 |
| Net income | | 60 |
| Contributions from member | | 20 |
| Distributions to member | | (86) |
| Other comprehensive income (loss) | | (7) |
| **June 30, 2015** | $ | 4,329 |
| | | |
| **December 31, 2014** | $ | 4,248 |
| Net income | | 177 |
| Contributions from member | | 20 |
| Distributions to member | | (109) |
| Other comprehensive income (loss) | | (7) |
| **June 30, 2015** | $ | 4,329 |
| | | |
| **March 31, 2014** | $ | 4,200 |
| Net income | | 65 |
| Contributions from member | | 79 |
| Distributions to member | | (117) |
| Other comprehensive income (loss) | | (2) |
| **June 30, 2014** | $ | 4,225 |
| | | |
| **December 31, 2013** | $ | 4,150 |
| Net income | | 180 |
| Contributions from member | | 119 |
| Distributions to member | | (221) |
| Other comprehensive income (loss) | | (3) |
| **June 30, 2014** | $ | 4,225 |

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

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## CONDENSED STATEMENTS OF INCOME
## Louisville Gas and Electric Company

(Unaudited)
*(Millions of Dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Operating Revenues** | | | | |
| Retail and wholesale | $ **323** | $ 320 | $ **740** | $ 762 |
| Electric revenue from affiliate | **8** | 24 | **30** | 61 |
| Total Operating Revenues | **331** | 344 | **770** | 823 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | **82** | 104 | **185** | 221 |
| Energy purchases | **23** | 29 | **111** | 147 |
| Energy purchases from affiliate | **5** | 2 | **8** | 8 |
| Other operation and maintenance | **103** | 94 | **199** | 192 |
| Depreciation | **40** | 39 | **82** | 77 |
| Taxes, other than income | **7** | 7 | **14** | 13 |
| Total Operating Expenses | **260** | 275 | **599** | 658 |
| **Operating Income** | **71** | 69 | **171** | 165 |
| Other Income (Expense) - net | **(1)** | (1) | **(2)** | (3) |
| Interest Expense | **13** | 12 | **26** | 24 |
| **Income Before Income Taxes** | **57** | 56 | **143** | 138 |
| Income Taxes | **22** | 21 | **55** | 51 |
| **Net Income (a)** | $ **35** | $ 35 | $ **88** | $ 87 |

(a) Net income equals comprehensive income.

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

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

(Unaudited)
*(Millions of Dollars)*

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ **88** | $ 87 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **82** | 77 |
| Amortization | **6** | 6 |
| Defined benefit plans - expense | **8** | 5 |
| Deferred income taxes and investment tax credits | **58** | 20 |
| Other | **24** | (4) |
| Change in current assets and current liabilities | | |
| Accounts receivable | **13** | (3) |
| Accounts receivable from affiliates | **7** | (17) |
| Accounts payable | **(12)** | (5) |
| Accounts payable to affiliates | **(4)** | (4) |
| Unbilled revenues | **9** | 19 |
| Fuel, materials and supplies | **51** | 44 |
| Income tax receivable | **74** | (5) |
| Taxes payable | **9** | 2 |
| Other | **(2)** | (4) |
| Other operating activities | | |
| Defined benefit plans - funding | **(25)** | (10) |
| Other assets | **12** | (1) |
| Other liabilities | **(9)** | (4) |
| Net cash provided by operating activities | **389** | 203 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(349)** | (249) |
| Net cash provided by (used in) investing activities | **(349)** | (249) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in short-term debt | **(5)** | 50 |
| Payment of common stock dividends to parent | **(58)** | (60) |
| Contributions from parent | **20** | 53 |
| Net cash provided by (used in) financing activities | **(43)** | 43 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(3)** | (3) |
| Cash and Cash Equivalents at Beginning of Period | **10** | 8 |
| Cash and Cash Equivalents at End of Period | $ **7** | $ 5 |

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 7 | $ 10 |
| Accounts receivable (less reserve: 2015, $1; 2014, $2) | | |
| Customer | 94 | 107 |
| Other | 10 | 11 |
| Unbilled revenues | 67 | 76 |
| Accounts receivable from affiliates | 16 | 23 |
| Fuel, materials and supplies | 103 | 162 |
| Prepayments | 8 | 8 |
| Income taxes receivable | | 74 |
| Deferred income taxes | 17 | |
| Regulatory assets | 10 | 21 |
| Other current assets | 3 | 1 |
| Total Current Assets | 335 | 493 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | 4,565 | 4,031 |
| Less: accumulated depreciation - regulated utility plant | 353 | 456 |
| Regulated utility plant, net | 4,212 | 3,575 |
| Construction work in progress | 331 | 676 |
| Property, Plant and Equipment, net | 4,543 | 4,251 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | 370 | 397 |
| Goodwill | 389 | 389 |
| Other intangibles | 85 | 97 |
| Other noncurrent assets | 23 | 35 |
| Total Other Noncurrent Assets | 867 | 918 |
| **Total Assets** | $ 5,745 | $ 5,662 |

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ **259** | $ 264 |
| Long-term debt due within one year | **250** | 250 |
| Accounts payable | **210** | 240 |
| Accounts payable to affiliates | **16** | 20 |
| Customer deposits | **25** | 25 |
| Taxes | **28** | 19 |
| Price risk management liabilities | **5** | 5 |
| Price risk management liabilities with affiliates | **23** | 33 |
| Regulatory liabilities | **15** | 10 |
| Interest | **6** | 6 |
| Other current liabilities | **41** | 42 |
| Total Current Liabilities | **878** | 914 |
| **Long-term Debt** | **1,103** | 1,103 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | **777** | 700 |
| Investment tax credits | **35** | 36 |
| Accrued pension obligations | **36** | 57 |
| Asset retirement obligations | **109** | 66 |
| Regulatory liabilities | **446** | 458 |
| Price risk management liabilities | **40** | 43 |
| Other deferred credits and noncurrent liabilities | **97** | 111 |
| Total Deferred Credits and Other Noncurrent Liabilities | **1,540** | 1,471 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Stockholder's Equity** | | |
| Common stock - no par value (a) | **424** | 424 |
| Additional paid-in capital | **1,541** | 1,521 |
| Earnings reinvested | **259** | 229 |
| Total Equity | **2,224** | 2,174 |
| **Total Liabilities and Equity** | $ **5,745** | $ 5,662 |

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

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

## CONDENSED STATEMENTS OF EQUITY
## Louisville Gas and Electric Company

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | | Common stock | | Additional paid-in capital | | Earnings reinvested | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **March 31, 2015** | 21,294 | $ | 424 | $ | 1,521 | $ | 259 | $ | 2,204 |
| Net income | | | | | | | 35 | | 35 |
| Capital contributions from LKE | | | | | 20 | | | | 20 |
| Cash dividends declared on common stock | | | | | | | (35) | | (35) |
| **June 30, 2015** | 21,294 | $ | 424 | $ | 1,541 | $ | 259 | $ | 2,224 |
| | | | | | | | | | |
| **December 31, 2014** | 21,294 | $ | 424 | $ | 1,521 | $ | 229 | $ | 2,174 |
| Net income | | | | | | | 88 | | 88 |
| Capital contributions from LKE | | | | | 20 | | | | 20 |
| Cash dividends declared on common stock | | | | | | | (58) | | (58) |
| **June 30, 2015** | 21,294 | $ | 424 | $ | 1,541 | $ | 259 | $ | 2,224 |
| | | | | | | | | | |
| **March 31, 2014** | 21,294 | $ | 424 | $ | 1,364 | $ | 197 | $ | 1,985 |
| Net income | | | | | | | 35 | | 35 |
| Capital contributions from LKE | | | | | 53 | | | | 53 |
| Cash dividends declared on common stock | | | | | | | (33) | | (33) |
| **June 30, 2014** | 21,294 | $ | 424 | $ | 1,417 | $ | 199 | $ | 2,040 |
| | | | | | | | | | |
| **December 31, 2013** | 21,294 | $ | 424 | $ | 1,364 | $ | 172 | $ | 1,960 |
| Net income | | | | | | | 87 | | 87 |
| Capital contributions from LKE | | | | | 53 | | | | 53 |
| Cash dividends declared on common stock | | | | | | | (60) | | (60) |
| **June 30, 2014** | 21,294 | $ | 424 | $ | 1,417 | $ | 199 | $ | 2,040 |

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Operating Revenues** | | | | |
| Retail and wholesale | $ 391 | $ 402 | $ 873 | $ 894 |
| Electric revenue from affiliate | 5 | 2 | 8 | 8 |
| Total Operating Revenues | 396 | 404 | 881 | 902 |
| **Operating Expenses** | | | | |
| Operation | | | | |
| Fuel | 132 | 127 | 282 | 287 |
| Energy purchases | 5 | 7 | 9 | 13 |
| Energy purchases from affiliate | 8 | 24 | 30 | 61 |
| Other operation and maintenance | 109 | 107 | 213 | 205 |
| Depreciation | 54 | 47 | 107 | 95 |
| Taxes, other than income | 8 | 6 | 15 | 13 |
| Total Operating Expenses | 316 | 318 | 656 | 674 |
| **Operating Income** | 80 | 86 | 225 | 228 |
| Other Income (Expense) - net | 2 | | 1 | |
| Interest Expense | 19 | 20 | 38 | 39 |
| **Income Before Income Taxes** | 63 | 66 | 188 | 189 |
| Income Taxes | 24 | 26 | 71 | 72 |
| **Net Income (a)** | $ 39 | $ 40 | $ 117 | $ 117 |

(a) Net income approximates comprehensive income.

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

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

| | Six Months Ended June 30, 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ **117** | $ 117 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | **107** | 95 |
| Amortization | **4** | 4 |
| Defined benefit plans - expense | **6** | 2 |
| Deferred income taxes and investment tax credits | **84** | 89 |
| Other | **(1)** | 5 |
| Change in current assets and current liabilities | | |
| Accounts receivable | | (20) |
| Accounts payable | **27** | 10 |
| Accounts payable to affiliates | **(11)** | 13 |
| Unbilled revenues | **3** | 8 |
| Fuel, materials and supplies | **3** | (1) |
| Income tax receivable | **60** | (24) |
| Taxes payable | **14** | (19) |
| Other | **(9)** | 16 |
| Other operating activities | | |
| Defined benefit plans - funding | **(19)** | (3) |
| Other assets | **(1)** | (1) |
| Other liabilities | **(24)** | 6 |
| Net cash provided by operating activities | **360** | 297 |
| **Cash Flows from Investing Activities** | | |
| Expenditures for property, plant and equipment | **(279)** | (305) |
| Other investing activities | **4** | |
| Net cash provided by (used in) investing activities | **(275)** | (305) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in short-term debt | **(9)** | 25 |
| Payment of common stock dividends to parent | **(81)** | (86) |
| Contributions from parent | | 66 |
| Net cash provided by (used in) financing activities | **(90)** | 5 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(5)** | (3) |
| Cash and Cash Equivalents at Beginning of Period | **11** | 21 |
| Cash and Cash Equivalents at End of Period | $ **6** | $ 18 |

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **6** | $ 11 |
| Accounts receivable (less reserve: 2015, $2; 2014, $2) | | |
| Customer | **122** | 124 |
| Other | **7** | 6 |
| Unbilled revenues | **88** | 91 |
| Fuel, materials and supplies | **146** | 149 |
| Prepayments | **12** | 10 |
| Income taxes receivable | | 60 |
| Deferred income taxes | **20** | 2 |
| Regulatory assets | **14** | 4 |
| Other current assets | **4** | 2 |
| Total Current Assets | **419** | 459 |
| **Property, Plant and Equipment** | | |
| Regulated utility plant | **6,780** | 5,977 |
| Less: accumulated depreciation - regulated utility plant | **685** | 611 |
| Regulated utility plant, net | **6,095** | 5,366 |
| Construction work in progress | **390** | 880 |
| Property, Plant and Equipment, net | **6,485** | 6,246 |
| **Other Noncurrent Assets** | | |
| Regulatory assets | **253** | 268 |
| Goodwill | **607** | 607 |
| Other intangibles | **63** | 77 |
| Other noncurrent assets | **57** | 58 |
| Total Other Noncurrent Assets | **980** | 1,010 |
| **Total Assets** | $ **7,884** | $ 7,715 |

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Short-term debt | $ 227 | $ 236 |
| Long-term debt due within one year | 250 | 250 |
| Accounts payable | 124 | 141 |
| Accounts payable to affiliates | 36 | 47 |
| Customer deposits | 27 | 27 |
| Taxes | 28 | 14 |
| Price risk management liabilities with affiliates | 23 | 33 |
| Regulatory liabilities | 12 | 5 |
| Interest | 12 | 11 |
| Other current liabilities | 42 | 41 |
| Total Current Liabilities | 781 | 805 |
| **Long-term Debt** | 1,841 | 1,841 |
| **Deferred Credits and Other Noncurrent Liabilities** | | |
| Deferred income taxes | 987 | 884 |
| Investment tax credits | 94 | 95 |
| Accrued pension obligations | 43 | 59 |
| Asset retirement obligations | 328 | 208 |
| Regulatory liabilities | 505 | 516 |
| Other deferred credits and noncurrent liabilities | 64 | 101 |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,021 | 1,863 |
| **Commitments and Contingent Liabilities (Notes 6 and 10)** | | |
| **Stockholder's Equity** | | |
| Common stock - no par value (a) | 308 | 308 |
| Additional paid-in capital | 2,596 | 2,596 |
| Accumulated other comprehensive income (loss) | (1) | |
| Earnings reinvested | 338 | 302 |
| Total Equity | 3,241 | 3,206 |
| **Total Liabilities and Equity** | $ 7,884 | $ 7,715 |

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

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

## CONDENSED STATEMENTS OF EQUITY
## Kentucky Utilities Company

(Unaudited)
*(Millions of Dollars)*

| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|
| **March 31, 2015** | 37,818 | $ 308 | $ 2,596 | $ 350 | $ (1) | $ 3,253 |
| Net income | | | | 39 | | 39 |
| Cash dividends declared on common stock | | | | (51) | | (51) |
| **June 30, 2015** | 37,818 | $ 308 | $ 2,596 | $ 338 | $ (1) | $ 3,241 |
| **December 31, 2014** | 37,818 | $ 308 | $ 2,596 | $ 302 | $ | $ 3,206 |
| Net income | | | | 117 | | 117 |
| Cash dividends declared on common stock | | | | (81) | | (81) |
| Other comprehensive income (loss) | | | | | (1) | (1) |
| **June 30, 2015** | 37,818 | $ 308 | $ 2,596 | $ 338 | $ (1) | $ 3,241 |
| **March 31, 2014** | 37,818 | $ 308 | $ 2,545 | $ 270 | $ | $ 3,123 |
| Net income | | | | 40 | | 40 |
| Capital contributions from LKE | | | 26 | | | 26 |
| Cash dividends declared on common stock | | | | (49) | | (49) |
| **June 30, 2014** | 37,818 | $ 308 | $ 2,571 | $ 261 | $ | $ 3,140 |
| **December 31, 2013** | 37,818 | $ 308 | $ 2,505 | $ 230 | $ 1 | $ 3,044 |
| Net income | | | | 117 | | 117 |
| Capital contributions from LKE | | | 66 | | | 66 |
| Cash dividends declared on common stock | | | | (86) | | (86) |
| Other comprehensive income (loss) | | | | | (1) | (1) |
| **June 30, 2014** | 37,818 | $ 308 | $ 2,571 | $ 261 | $ | $ 3,140 |

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

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

## Combined Notes to Condensed Financial Statements (Unaudited)

### 1. Interim Financial Statements

*(All Registrants)*

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2014 is derived from that Registrant's 2014 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2014 Form 10-K. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 2015 financial statements.

*(PPL)*

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Energy Supply, substantially representing PPL's Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. PPL Energy Supply's assets and liabilities have been reclassified on the Balance Sheet at December 31, 2014 to assets and liabilities of discontinued operations. The assets and liabilities were distributed and removed from PPL's Balance Sheets in the second quarter of 2015. In addition, the Statements of Cash Flows separately report the cash flows of the discontinued operations. See Note 8 for additional information.

### 2. Summary of Significant Accounting Policies

*(All Registrants)*

The following accounting policy disclosures represent updates to Note 1 to each indicated Registrant's 2014 Form 10-K and should be read in conjunction with those disclosures.

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

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and six months ended June 30, 2015, PPL Electric purchased $276 million and $607 million of accounts receivable from unaffiliated third parties and $53 million and $146 million from PPL EnergyPlus. During the three and six months ended June 30, 2014, PPL Electric purchased $253 million and $614 million of accounts receivable from unaffiliated third parties and $79 million and $184 million from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for the three and six months ended June 30, 2015 include purchases through May 31, 2015, which is the period during which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are purchases from an unaffiliated third party.

### Depreciation *(PPL)*

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years. For the three and six months ended June 30, 2015, this change in useful lives resulted in lower depreciation of $22 million ($17 million after-tax or $0.03 per share) and $42 million ($33 million after-tax or $0.05 per share).

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

Reporting of Discontinued Operations

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

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

## 3. Segment and Related Information

*(PPL)*

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

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

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Income Statement Data** | | | | |
| Revenues from external customers | | | | |
| U.K. Regulated | $ 587 | $ 672 | $ 1,284 | $ 1,320 |
| Kentucky Regulated | 714 | 722 | 1,613 | 1,656 |
| Pennsylvania Regulated | 476 | 448 | 1,106 | 1,039 |
| Corporate and Other | 4 | 7 | 8 | 12 |
| Total | $ 1,781 | $ 1,849 | $ 4,011 | $ 4,027 |
| | | | | |
| Net Income (loss) | | | | |
| U.K. Regulated (a) | $ 190 | $ 187 | $ 565 | $ 393 |
| Kentucky Regulated | 47 | 58 | 156 | 165 |
| Pennsylvania Regulated | 49 | 52 | 136 | 137 |
| Corporate and Other (b) | (36) | (67) | (55) | (76) |
| Discontinued Operations (c) | (1,007) | (1) | (912) | (74) |
| Total | $ (757) | $ 229 | $ (110) | $ 545 |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Balance Sheet Data** | | |
| Assets | | |
| U.K. Regulated | $ 15,973 | $ 16,005 |
| Kentucky Regulated | 13,314 | 13,062 |
| Pennsylvania Regulated | 8,171 | 7,785 |
| Corporate and Other (d) | 786 | 1,095 |
| Discontinued Operations (c) | | 10,917 |
| Total assets | $ 38,244 | $ 48,864 |

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) 2015 includes transition costs to prepare the new Talen Energy organization for the June 1, 2015 spinoff and reconfigure the remaining PPL Services functions. See Note 8 for additional information.
(c) See Note 8 for additional information.
(d) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

## 4. Earnings Per Share

*(PPL)*

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

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Income (Numerator)** | | | | |
| Income from continuing operations after income taxes | $ 250 | $ 230 | $ 802 | $ 619 |
| Less amounts allocated to participating securities | 1 | 1 | 2 | 3 |
| Income from continuing operations after income taxes available to PPL common shareowners - Basic | 249 | 229 | 800 | 616 |
| Plus interest charges (net of tax) related to Equity Units (a) | | | | 9 |
| Income from continuing operations after income taxes available to PPL common shareowners - Diluted | $ 249 | $ 229 | $ 800 | $ 625 |
| Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted | $ (1,007) | $ (1) | $ (912) | $ (74) |
| Net income (loss) | $ (757) | $ 229 | $ (110) | $ 545 |
| Less amounts allocated to participating securities | 1 | 1 | 2 | 3 |
| Net income (loss) available to PPL common shareowners - Basic | (758) | 228 | (112) | 542 |
| Plus interest charges (net of tax) related to Equity Units (a) | | | | 9 |
| Net income (loss) available to PPL common shareowners - Diluted | $ (758) | $ 228 | $ (112) | $ 551 |
| **Shares of Common Stock (Denominator)** | | | | |
| Weighted-average shares - Basic EPS | 668,415 | 653,132 | 667,698 | 642,002 |
| Add incremental non-participating securities: | | | | |
| Share-based payment awards | 2,871 | 2,100 | 2,315 | 1,806 |
| Equity Units (a) | | 10,560 | | 21,119 |
| Weighted-average shares - Diluted EPS | 671,286 | 665,792 | 670,013 | 664,927 |
| **Basic EPS** | | | | |
| Available to PPL common shareowners: | | | | |
| Income from continuing operations after income taxes | $ 0.37 | $ 0.35 | $ 1.20 | $ 0.96 |
| Income (loss) from discontinued operations (net of income taxes) | (1.50) | | (1.37) | (0.12) |
| Net Income (Loss) Available to PPL common shareowners | $ (1.13) | $ 0.35 | $ (0.17) | $ 0.84 |
| **Diluted EPS** | | | | |
| Available to PPL common shareowners: | | | | |
| Income from continuing operations after income taxes | $ 0.37 | $ 0.34 | $ 1.19 | $ 0.94 |
| Income (loss) from discontinued operations (net of income taxes) | (1.50) | | (1.36) | (0.11) |
| Net Income (Loss) Available to PPL common shareowners | $ (1.13) | $ 0.34 | $ (0.17) | $ 0.83 |

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

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Stock-based compensation plans (a) | 992 | 922 | 2,437 | 2,018 |
| DRIP | 424 | | 843 | |

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

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Stock options | 348 | 790 | 1,085 | 2,060 |
| Performance units | | 1 | 73 | 1 |
| Restricted stock units | | | | 61 |

## 5. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are:

*(PPL)*

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35% | $ 112 | $ 139 | $ 382 | $ 333 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 9 | 3 | 29 | 16 |
| Valuation allowance adjustments (a) | 5 | 46 | 8 | 46 |
| Impact of lower U.K. income tax rates | (36) | (31) | (98) | (76) |
| U.S. income tax on foreign earnings - net of foreign tax credit (b) | | 10 | (1) | 21 |
| Federal and state tax reserve adjustments (c) | (12) | (1) | (12) | (1) |
| Intercompany interest on U.K. financing entities | (3) | (1) | (11) | (3) |
| Other | (4) | 1 | (9) | (3) |
| Total increase (decrease) | (41) | 27 | (94) | |
| Total income taxes | $ 71 | $ 166 | $ 288 | $ 333 |

(a) As a result of the spinoff announcement, PPL recorded deferred income tax expense during the three and six months ended June 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.
(b) During the three and six months ended June 30, 2015, PPL recorded lower income tax expense due to a decrease in taxable dividends.
(c) During the three and six months ended June 30, 2015, PPL recorded a tax benefit to adjust the settled refund amount approved by Joint Committee of Taxation for the open audit years 1998-2011.

*(PPL Electric)*

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ 30 | $ 29 | $ 81 | $ 77 |
| Increase (decrease) due to: | | | | |
| State income taxes, net of federal income tax benefit | 4 | 4 | 14 | 12 |
| Federal and state tax reserve adjustments | 2 | (1) | 2 | (1) |
| Depreciation not normalized | (1) | (1) | (2) | (3) |
| Other | 1 | | | (1) |
| Total increase (decrease) | 6 | 2 | 14 | 7 |
| Total income taxes | $ 36 | $ 31 | $ 95 | $ 84 |

*(LKE)*

| | Three Months 2015 | | Three Months 2014 | | Six Months 2015 | | Six Months 2014 | |
|---|---|---|---|---|---|---|---|---|
| Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35% | $ | 37 | $ | 37 | $ | 104 | $ | 102 |
| Increase (decrease) due to: | | | | | | | | |
| State income taxes, net of federal income tax benefit | | 4 | | 4 | | 11 | | 10 |
| Valuation allowance adjustment (a) | | 5 | | | | 8 | | |
| Other | | (1) | | | | (2) | | (2) |
| Total increase (decrease) | | 8 | | 4 | | 17 | | 8 |
| Total income taxes | $ | 45 | $ | 41 | $ | 121 | $ | 110 |

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

*(LG&E)*

| | Three Months 2015 | | Three Months 2014 | | Six Months 2015 | | Six Months 2014 | |
|---|---|---|---|---|---|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ | 20 | $ | 20 | $ | 50 | $ | 48 |
| Increase (decrease) due to: | | | | | | | | |
| State income taxes, net of federal income tax benefit | | 2 | | 2 | | 5 | | 5 |
| Other | | | | (1) | | | | (2) |
| Total increase (decrease) | | 2 | | 1 | | 5 | | 3 |
| Total income taxes | $ | 22 | $ | 21 | $ | 55 | $ | 51 |

*(KU)*

| | Three Months 2015 | | Three Months 2014 | | Six Months 2015 | | Six Months 2014 | |
|---|---|---|---|---|---|---|---|---|
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | $ | 22 | $ | 23 | $ | 66 | $ | 66 |
| Increase (decrease) due to: | | | | | | | | |
| State income taxes, net of federal income tax benefit | | 2 | | 2 | | 7 | | 7 |
| Other | | | | 1 | | (2) | | (1) |
| Total increase (decrease) | | 2 | | 3 | | 5 | | 6 |
| Total income taxes | $ | 24 | $ | 26 | $ | 71 | $ | 72 |

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

Changes to unrecognized tax benefits for the periods ended June 30 were as follows.

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

## **Other** *(PPL)*

In February 2015, PPL and the IRS Appeals division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. In April 2015, PPL was notified that the Joint Committee on Taxation approved PPL's settlement. In the second quarter of 2015, PPL recorded a tax benefit of $23 million, which includes an estimate of interest on the refund. Of this amount, $11 million is reflected in continuing operations. Final determination of interest on the refund is still pending from the IRS.

## 6. Utility Rate Regulation

*(All Registrants)*

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

| | PPL | | PPL Electric | |
|---|---|---|---|---|
| | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 |
| **Current Regulatory Assets:** | | | | |
| Environmental cost recovery | $ 16 | $ 5 | | |
| Gas supply clause | 1 | 15 | | |
| Transmission service charge | 7 | 6 | $ 7 | $ 6 |
| Other | 10 | 11 | 3 | 6 |
| Total current regulatory assets (a) | $ 34 | $ 37 | $ 10 | $ 12 |
| **Noncurrent Regulatory Assets:** | | | | |
| Defined benefit plans | $ 745 | $ 720 | $ 417 | $ 372 |
| Taxes recoverable through future rates | 319 | 316 | 319 | 316 |
| Storm costs | 108 | 124 | 38 | 46 |
| Unamortized loss on debt | 74 | 77 | 46 | 49 |
| Interest rate swaps | 98 | 122 | | |
| Accumulated cost of removal of utility plant | 125 | 114 | 125 | 114 |
| AROs | 91 | 79 | | |
| Other | 9 | 10 | 1 | |
| Total noncurrent regulatory assets | $ 1,569 | $ 1,562 | $ 946 | $ 897 |
| **Current Regulatory Liabilities:** | | | | |
| Generation supply charge | $ 31 | $ 28 | $ 31 | $ 28 |
| Demand side management | 12 | 2 | | |
| Gas supply clause | 9 | 6 | | |
| Transmission formula rate | 66 | 42 | 66 | 42 |
| Storm damage expense | 10 | 3 | 10 | 3 |
| Other | 9 | 10 | 3 | 3 |
| Total current regulatory liabilities | $ 137 | $ 91 | $ 110 | $ 76 |
| **Noncurrent Regulatory Liabilities:** | | | | |
| Accumulated cost of removal of utility plant | $ 693 | $ 693 | | |
| Coal contracts (b) | 38 | 59 | | |
| Power purchase agreement - OVEC (b) | 88 | 92 | | |
| Net deferred tax assets | 24 | 26 | | |
| Act 129 compliance rider | 26 | 18 | $ 26 | $ 18 |
| Defined benefit plans | 21 | 16 | | |
| Interest rate swaps | 84 | 84 | | |
| Other | 3 | 4 | | |
| Total noncurrent regulatory liabilities | $ 977 | $ 992 | $ 26 | $ 18 |

| | LKE | | LG&E | | KU | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 |
| **Current Regulatory Assets:** | | | | | | |
| Environmental cost recovery | $ 16 | $ 5 | $ 9 | $ 4 | $ 7 | $ 1 |
| Gas supply clause | 1 | 15 | 1 | 15 | | |
| Fuel adjustment clause | | 4 | | 2 | | 2 |
| Other | 7 | 1 | | | 7 | 1 |
| Total current regulatory assets | $ 24 | $ 25 | $ 10 | $ 21 | $ 14 | $ 4 |
| **Noncurrent Regulatory Assets:** | | | | | | |
| Defined benefit plans | $ 328 | $ 348 | $ 203 | $ 215 | $ 125 | $ 133 |
| Storm costs | 70 | 78 | 39 | 43 | 31 | 35 |
| Unamortized loss on debt | 28 | 28 | 18 | 18 | 10 | 10 |
| Interest rate swaps | 98 | 122 | 75 | 89 | 23 | 33 |
| AROs | 91 | 79 | 33 | 28 | 58 | 51 |
| Other | 8 | 10 | 2 | 4 | 6 | 6 |
| Total noncurrent regulatory assets | $ 623 | $ 665 | $ 370 | $ 397 | $ 253 | $ 268 |

| | LKE | | LG&E | | KU | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 |
| Current Regulatory Liabilities: | | | | | | |
| Demand side management | $ 12 | $ 2 | $ 5 | $ 1 | $ 7 | $ 1 |
| Gas supply clause | 9 | 6 | 9 | 6 | | |
| Fuel adjustment clause | 4 | | | | 4 | |
| Gas line tracker | 1 | 3 | 1 | 3 | | |
| Other | 1 | 4 | | | 1 | 4 |
| Total current regulatory liabilities | $ 27 | $ 15 | $ 15 | $ 10 | $ 12 | $ 5 |
| Noncurrent Regulatory Liabilities: | | | | | | |
| Accumulated cost of removal of utility plant | $ 693 | $ 693 | $ 303 | $ 302 | $ 390 | $ 391 |
| Coal contracts (b) | 38 | 59 | 16 | 25 | 22 | 34 |
| Power purchase agreement - OVEC (b) | 88 | 92 | 60 | 63 | 28 | 29 |
| Net deferred tax assets | 24 | 26 | 23 | 24 | 1 | 2 |
| Defined benefit plans | 21 | 16 | | | 21 | 16 |
| Interest rate swaps | 84 | 84 | 42 | 42 | 42 | 42 |
| Other | 3 | 4 | 2 | 2 | 1 | 2 |
| Total noncurrent regulatory liabilities | $ 951 | $ 974 | $ 446 | $ 458 | $ 505 | $ 516 |

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.
(b) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

## Regulatory Matters

### U. K. Activities *(PPL)*

#### *RIIO-ED1*

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

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

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its liability by $65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. WPD began refunding the liability to customers on April 1, 2015 and will continue through March 31, 2019. The liability at June 30, 2015 was $88 million.

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

#### *Rate Case Proceedings*

On November 26, 2014, LG&E and KU filed requests with the KPSC for increases in annual base rates for LG&E's electric and gas operations and KU's electric operations. On April 20, 2015, LG&E and KU, and the other parties to the proceeding, filed a unanimous settlement agreement with the KPSC. The settlement agreement was approved by the KPSC on June 30, 2015. Among other things, the settlement provides for increases in the annual revenue requirements associated with KU base electricity rates of $125 million and LG&E base gas rates of $7 million. The annual revenue requirement associated with base electricity rates at LG&E was not changed. Although the settlement did not establish a specific return on equity with respect to the base rates, an authorized 10% return on equity will be utilized in the ECR and GLT mechanisms. The settlement agreement provides for deferred recovery of costs associated with Green River Units 3 and 4 through their retirement. The new regulatory asset will be amortized over three years. The settlement also provides regulatory asset treatment for the difference between pension expense currently booked in accordance with LG&E and KU's pension accounting policy and pension expense using a 15 year amortization period for actuarial gains and losses. The new rates and all elements of the settlement became effective July 1, 2015.

#### *KPSC Landfill Proceedings*

On May 22, 2015, LG&E and KU filed an application with the KPSC for a declaratory order that the existing CPCN and ECR approvals regarding the initial phases of construction and rate recovery of the landfill for management of CCRs at the

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

Pennsylvania Activities *(PPL and PPL Electric)*

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

*Rate Case Proceeding*

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The proposal would result in a rate increase of 3.9% on a total bill basis and is expected to become effective on January 1, 2016. PPL Electric's application includes a request for an authorized return-on-equity of 10.95%. The application is based on a fully projected future test year of January 1, 2016 through December 31, 2016. PPL Electric cannot predict the outcome of this proceeding.

*Distribution System Improvement Charge (DSIC)*

On March 31, 2015, PPL Electric filed a petition requesting a waiver of the DSIC cap of 5% of billed revenues and approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered after January 1, 2016. PPL Electric filed the petition concurrently with its 2015 rate case and the Administrative Law Judge granted PPL Electric's request to consolidate these two proceedings. PPL Electric cannot predict the outcome of this proceeding.

*Storm Damage Expense Rider (SDER)*

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

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

### *Smart Meter Rider (SMR)*

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

## Federal Matters

### *FERC Wholesale Formula Rates (PPL, LKE and KU)*

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

## 7. Financing Activities

### Credit Arrangements and Short-term Debt

*(All Registrants)*

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

| | | June 30, 2015 | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|---|
| | Expiration Date | Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity | Borrowed | Letters of Credit and Commercial Paper Issued |
| **PPL** | | | | | | | |
| **U.K.** | | | | | | | |
| WPD plc | | | | | | | |
| Syndicated Credit Facility | Dec. 2016 | £ 210 | £ 130 | | £ 80 | £ 103 | |
| WPD (South West) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 245 | | | 245 | | |
| WPD (East Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 300 | 112 | | 188 | 64 | |
| WPD (West Midlands) | | | | | | | |
| Syndicated Credit Facility | July 2019 | 300 | | | 300 | | |
| Uncommitted Credit Facilities | | 65 | | £ 4 | 61 | | £ 5 |
| Total U.K. Credit Facilities (a) | | £ 1,120 | £ 242 | £ 4 | £ 874 | £ 167 | £ 5 |
| **U.S.** | | | | | | | |
| PPL Capital Funding | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | | $ 300 | | |
| Syndicated Credit Facility | Nov. 2018 | 300 | | | 300 | | |
| Bilateral Credit Facility | Mar. 2016 | 150 | | $ 20 | 130 | | $ 21 |
| Uncommitted Credit Facility | | 65 | | 1 | 64 | | 1 |
| Total PPL Capital Funding Credit Facilities | | $ 815 | | $ 21 | $ 794 | | $ 22 |
| **PPL Electric** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 300 | | $ 169 | $ 131 | | $ 1 |
| **LKE** | | | | | | | |
| Syndicated Credit Facility (b) | Oct. 2018 | $ 75 | $ 75 | | | $ 75 | |
| **LG&E** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 500 | | $ 259 | $ 241 | | $ 264 |
| **KU** | | | | | | | |
| Syndicated Credit Facility | July 2019 | $ 400 | | $ 227 | $ 173 | | $ 236 |
| Letter of Credit Facility | Oct. 2017 | 198 | | 198 | | | 198 |
| Total KU Credit Facilities | | $ 598 | | $ 425 | $ 173 | | $ 434 |

(a) WPD plc's amounts borrowed at June 30, 2015 and December 31, 2014 were USD-denominated borrowings of $200 million and $161 million, which bore interest at 1.89% and 1.86%. WPD (East Midlands) amounts borrowed at June 30, 2015 and December 31, 2014 were GBP-denominated borrowings which equated to $171 million and $100 million, which bore interest at 1.01% for both periods. At June 30, 2015, the unused capacity under the U.K. credit facilities was $1.3 billion.

(b) LKE's interest rates on outstanding borrowings at June 30, 2015 and December 31, 2014, were 1.44% and 1.67%.

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

| | June 30, 2015 | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| | Weighted - Average Interest Rate | Capacity | Commercial Paper Issuances | Unused Capacity | Weighted - Average Interest Rate | Commercial Paper Issuances |
| PPL Electric | 0.42% | $ 300 | $ 168 | $ 132 | | |
| LG&E | 0.49% | 350 | 259 | 91 | 0.42% | $ 264 |
| KU | 0.48% | 350 | 227 | 123 | 0.49% | 236 |
| Total | | $ 1,000 | $ 654 | $ 346 | | $ 500 |

*(LKE)*

See Note 11 for discussion of intercompany borrowings.

*(PPL)*

### At-The-Market Stock Offering 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. During the three and six months ended June 30, 2015, PPL issued 421,700 shares of common stock under the program at an average price of $33.73 per share, receiving net proceeds of $14 million.

### Distributions

In May 2015, PPL declared its quarterly common stock dividend, payable July 1, 2015, at 37.25 cents per share (equivalent to $1.49 per annum). On August 3, 2015, PPL announced that the company is increasing its common stock dividend to 37.75 cents per share on a quarterly basis (equivalent to $1.51 per annum). The increased dividend will be payable on October 1, 2015 to shareowners of record as of September 10, 2015. Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors. See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

## 8. Acquisitions, Development and Divestitures

*(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 8 in the 2014 Form 10-K for additional information.

*(PPL)*

### Discontinued Operations

#### Spinoff of PPL Energy Supply

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

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in, control of, or affiliation with Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

### *Loss on Spinoff*

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

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

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

The following table summarizes PPL's fair value analysis:

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

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

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

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

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

### *Costs of Spinoff*

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges for employee separation benefits were recorded. See Note 8 in the 2014 Form 10-K for additional information. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to be completed by the end of 2015. At June 30, 2015 and December 31, 2014, the recorded liabilities related to the separation benefits were $13 million and $21 million, which are included in "Other current liabilities" on the Balance Sheets.

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

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

PPL recorded $36 million and $42 million of third-party costs related to this transaction during the three and six months ended June 30, 2015. Of these costs, $29 million and $31 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $7 million and $11 million of consulting and other costs were incurred to prepare the new Talen Energy organization for the spinoff and reconfigure the remaining PPL service functions. These costs are primarily recorded in "Other operation and maintenance" on the Statement of Income. PPL recorded $16 million of third-party costs related to this transaction during the three and six months ended June 30, 2014. No significant additional third-party costs are expected to be incurred.

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

*Continuing Involvement*

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) which terminates no later than two years from the spinoff date. The TSA sets forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL will provide Talen Energy certain information technology, financial and accounting, human resource and other specified services. For the period June 1, 2015 to June 30, 2015, the amounts PPL billed Talen Energy for these services were not significant. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff transaction. PPL Electric's supply contracts with Talen Energy Marketing extend through December 2015. The energy purchases were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

For the period June 1, 2015 to June 30, 2015, PPL Electric's energy purchases from Talen Energy Marketing were not significant and are no longer considered affiliate transactions.

*Summarized Results of Discontinued Operations*

The operations of the Supply segment are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statements of Income for the periods ended June 30:

| | Three Months 2015 | Three Months 2014 | Six Months 2015 | Six Months 2014 |
|---|---|---|---|---|
| Operating revenues | $ 483 | $ 1,046 | $ 1,427 | $ 118 |
| Operating expenses | 561 | 1,006 | 1,328 | 164 |
| Other Income (Expense) - net | (29) | (8) | (22) | (2) |
| Interest Expense (a) | 112 | 50 | 150 | 98 |
| Income (loss) before income taxes | (219) | (18) | (73) | (146) |
| Income tax expense (benefit) | (91) | (17) | (40) | (72) |
| Loss on spinoff | (879) | | (879) | |
| Income (Loss) from Discontinued Operations (net of income taxes) | $ (1,007) | $ (1) | $ (912) | $ (74) |

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

### *Summarized Assets and Liabilities of Discontinued Operations*

The assets and liabilities of PPL's Supply segment for all periods prior to the spinoff are included in "Current assets of discontinued operations", "Noncurrent assets of discontinued operations", "Current liabilities of discontinued operations" and "Noncurrent liabilities of discontinued operations" on PPL's Balance Sheet. Net assets, after recognition of the loss on spinoff, of $3.2 billion were distributed to PPL shareowners on June 1, 2015, as a result of the completion of the spinoff of PPL Energy Supply. The following major classes of assets and liabilities were distributed and removed from PPL's Balance Sheet on June 1, 2015. Additionally, the following major classes of assets and liabilities were reclassified to discontinued operations as of December 31, 2014:

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

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

### Montana Hydro Sale

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

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

## Development

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

Cane Run Unit 7 was put into commercial operation on June 19, 2015. 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. LG&E incurred costs of $11 million directly related to these retirements consisting of an inventory write-down and separation benefits. However, there were no gains or losses on the retirement of these units.

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

## 9. Defined Benefits

*(PPL)*

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

*(PPL, LKE and LG&E)*

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

| | Pension Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months | | | | Six Months | | | |
| | U.S. | | U.K. | | U.S. | | U.K. | |
| | 2015 (b) | 2014 (c) | 2015 | 2014 | 2015 (b) | 2014 (c) | 2015 | 2014 |
| **PPL** | | | | | | | | |
| Service cost | $ 26 | $ 24 | $ 19 | $ 18 | $ 56 | $ 49 | $ 39 | $ 36 |
| Interest cost | 52 | 56 | 77 | 90 | 110 | 112 | 156 | 178 |
| Expected return on plan assets | (69) | (72) | (129) | (132) | (145) | (144) | (260) | (262) |
| Amortization of: | | | | | | | | |
| Prior service cost | 2 | 5 | | | 4 | 10 | | |
| Actuarial (gain) loss | 22 | 7 | 40 | 33 | 47 | 14 | 79 | 66 |
| Net periodic defined benefit costs (credits) prior to termination benefits | 33 | 20 | 7 | 9 | 72 | 41 | 14 | 18 |

| | Pension Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months | | | | Six Months | | | |
| | U.S. | | U.K. | | U.S. | | U.K. | |
| | 2015 (b) | 2014 (c) | 2015 | 2014 | 2015 (b) | 2014 (c) | 2015 | 2014 |
| Termination benefits (a) | | 20 | | | | 20 | | |
| Net periodic defined benefit costs (credits) | $ 33 | $ 40 | $ 7 | $ 9 | $ 72 | $ 61 | $ 14 | $ 18 |

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Three Months | | Six Months | |
| | 2015 | 2014 | 2015 | 2014 |
| **LKE** | | | | |
| Service cost | $ 6 | $ 5 | $ 13 | $ 11 |
| Interest cost | 17 | 16 | 34 | 33 |
| Expected return on plan assets | (22) | (21) | (44) | (41) |
| Amortization of: | | | | |
| Prior service cost | 2 | 1 | 4 | 2 |
| Actuarial (gain) loss | 9 | 3 | 17 | 6 |
| Net periodic defined benefit costs (credits) | $ 12 | $ 4 | $ 24 | $ 11 |
| **LG&E** | | | | |
| Service cost | $ 1 | $ 1 | $ 1 | $ 1 |
| Interest cost | 4 | 3 | 7 | 7 |
| Expected return on plan assets | (5) | (5) | (10) | (10) |
| Amortization of: | | | | |
| Prior service cost | | | 1 | 1 |
| Actuarial (gain) loss | 3 | 2 | 6 | 3 |
| Net periodic defined benefit costs (credits) | $ 3 | $ 1 | $ 5 | $ 2 |

(a) Includes termination benefits of $4 million for PPL Electric. The remaining $16 million relates to PPL Energy Supply and is reflected in discontinued operations.
(b) For the three and six months ended June 30, 2015, the total net periodic defined benefit cost include $7 million and $18 million reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply prior to the spinoff.
(c) For the three and six months ended June 30, 2014, the total net periodic defined benefit cost include $23 million and $28 million reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply.

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months | | Six Months | |
| | 2015 | 2014 | 2015 | 2014 |
| **PPL** | | | | |
| Service cost | $ 3 | $ 3 | $ 7 | $ 6 |
| Interest cost | 7 | 8 | 14 | 16 |
| Expected return on plan assets | (7) | (7) | (14) | (13) |
| Net periodic defined benefit costs (credits) | $ 3 | $ 4 | $ 7 | $ 9 |
| **LKE** | | | | |
| Service cost | $ 2 | $ 1 | $ 3 | $ 2 |
| Interest cost | 3 | 3 | 5 | 5 |
| Expected return on plan assets | (2) | (2) | (3) | (3) |
| Amortization of: | | | | |
| Prior service cost | | | 1 | 1 |
| Net periodic defined benefit costs (credits) | $ 3 | $ 2 | $ 6 | $ 5 |

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

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| PPL Electric (a) | $ 8 | $ 10 | $ 16 | $ 15 |
| LG&E | 4 | 2 | 7 | 4 |
| KU | 4 | 1 | 9 | 4 |

(a) The three and six months ended June 30, 2014 include $4 million of termination benefits for PPL Electric related to a one-time voluntary retirement window offered to certain bargaining unit employees.

## 10. Commitments and Contingencies

*(PPL)*

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

### Legal Matters

*(All Registrants)*

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

WKE Indemnification *(PPL and LKE)*

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

*(PPL, LKE 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 and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth Circuit issued an order granting appellate review regarding the above matter and such issues as may appropriately be presented by the parties and determined by the court. Oral argument is scheduled for August 2015. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, costs and attorney's fees. In July 2015, the Court held a hearing regarding various cross-motions for summary judgment which are pending. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant but believe the plant is operating in compliance with the permits.

### Regulatory Issues *(All Registrants)*

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

Electricity - Reliability Standards

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

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

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

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

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

### Environmental Matters - Domestic

*(All Registrants)*

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

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

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

#### Air

The Clean Air Act, which regulates air pollutants from mobile and stationary sources, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and $SO_2$.

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

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

*National Ambient Air Quality Standards (NAAQS)*

In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014.The EPA is required under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another states' non-attainment. States that are not in the ozone transport region, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be predicted at this time.

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

*Mercury and Air Toxics Standards (MATS)*

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. The MATS rule was challenged by industry groups and states and was upheld by the U.S. Court of Appeals for the D. C. Circuit Court (D.C. Circuit Court) in April 2014. A group of states subsequently petitioned the U.S. Supreme Court (Supreme Court) to review this decision and on June 29, 2015, the Supreme Court held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The Court remanded the matter to the D.C. Circuit Court. EPA's MATS rule remains in effect pending action by the D.C. Circuit Court. It is uncertain whether the D.C. Circuit Court will vacate the MATS rule, remand the rule to the EPA, or require further proceedings or actions.

LG&E and KU have installed significant controls in connection with the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded FGDs or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, rate treatment or future capital or operating needs.

*New Source Review (NSR)*

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. PPL, LKE, LG&E and KU received various EPA information requests in 2007 and 2009, but have received no further communications from the EPA related to those requests since providing their responses. States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate the impact, if any.

If any PPL subsidiary is found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, the subsidiary would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the NAAQS in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be significant.

### *Trimble County Unit 2 Air Permit*

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

### *Climate Change*

*(All Registrants)*

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate carbon dioxide emissions from new motor vehicles, in April 2010 the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of carbon dioxide emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014, the U.S. Supreme Court ruled that the EPA has the authority to regulate carbon dioxide emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in carbon dioxide emissions must comply with BACT permit limits for carbon dioxide if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing GHG emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the U.S. to prepare for the impacts of climate change. Requirements related to this Plan could affect the Registrants and others in the industry as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. As further described below, the EPA has proposed rules pursuant to this directive for both new and existing power plants, which it expects to finalize in the third quarter of 2015. The EPA has also announced that it will develop a federal implementation plan which would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act when the sources are already regulated under Section 112 is under challenge in the D.C. Circuit Court. Oral arguments were heard on April 16, 2015.

The EPA's proposal for new power plants was issued in January 2014. The revised proposal calls for separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

The EPA's proposal for existing power plants was issued in June 2014. The existing plant proposal contains state-specific rate-based reduction goals and guidelines for the development, submission and implementation of state plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying EPA's broad interpretation and definition of the Best System of Emission Reduction resulting in stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the type of plan filed (single or multi state). LG&E and KU have analyzed the proposal and identified potential impacts and solutions in comments filed in December 2014. PPL also submitted Supplemental Comments to FERC through EEI, advocating for reliability coordination and relief in response to technical conferences hosted by FERC on the reliability implications of implementing this rule. LG&E and KU are also working closely with state regulators in the development of Kentucky's state implementation plan. The regulation of carbon dioxide emissions from existing power plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

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

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

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

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

### Water/Waste

*Coal Combustion Residuals (CCRs)*

On April 17, 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule will become effective on October 14, 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable through citizen suits. LG&E's and KU's plants using surface impoundments for management and disposal of CCRs will be most impacted by this rule. The rule's requirements for covered CCR impoundments and landfills include commencement or completion of closure activities generally between three and ten years from certain triggering events. PPL, LKE, LG&E and KU also anticipate incurring capital or operation and maintenance costs prior to that time to address other provisions of the rule, such as groundwater monitoring and disposal facility modifications or closings, or to implement various compliance strategies.

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

*Trimble County Landfill*

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

### *Clean Water Act*

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

### *Effluent Limitations Guidelines (ELGs)*

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELGs contain requirements that would affect the inspection and operation of CCR facilities if finalized as proposed. The proposal contains alternative approaches, some of which could impose significant costs on LG&E's and KU's coal-fired plants. The final regulation is expected to be issued by the fourth quarter of 2015. At the present time, PPL, LKE, LG&E and KU are unable to estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines. Costs to comply with ELGs or technology-based limits are subject to rate recovery.

*(PPL, LKE and LG&E)*

### *Clean Water Act Section 316(b)*

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

*(All Registrants)*

### *Waters of the United States (WOTUS)*

On May 27, 2015, the EPA released a final rule on the definition of WOTUS. Although the rule was meant to clarify which streams and other bodies of water fall under the jurisdiction of EPA and the Army Corps of Engineers under the Clean Water Act, significant ambiguity remains. The Registrants do not currently expect the rule to have a significant impact on their operations. Until such time as ongoing litigation is complete, however, the Registrants are unable to predict the impact of the rule which could be substantial and include significant project delays and added costs, as permits and other regulatory requirements may be imposed for many activities presently not covered by permitting requirements (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands). However, these costs are subject to rate recovery.

### *Other Issues*

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

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

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

Superfund and Other Remediation *(All Registrants)*

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

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

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

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

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

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

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

## Other

### Guarantees and Other Assurances

*(All Registrants)*

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

*(PPL)*

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

*(All Registrants)*

The table below details guarantees provided as of June 30, 2015. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at June 30, 2015 and December 31, 2014, was $24 million and $26 million for PPL and $19 million for LKE for both periods. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

| | Exposure at June 30, 2015 | Expiration Date |
|---|---|---|
| **PPL** | | |
| Indemnifications related to the WPD Midlands acquisition | (a) | |
| WPD indemnifications for entities in liquidation and sales of assets | $ 12 (b) | 2018 |
| WPD guarantee of pension and other obligations of unconsolidated entities | 121 (c) | |
| **PPL Electric** | | |
| Guarantee of inventory value | 28 (d) | 2016 |
| **LKE** | | |
| Indemnification of lease termination and other divestitures | 301 (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. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2015, 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.

(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 fall outside the cap. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of $100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including additional legal, arbitration and contractual developments, as well as future prices, availability and demand for the subject excess power. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of indemnification circumstances, but does not currently 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 currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 13 in PPL's, LKE's, LG&E's and KU's 2014 Form 10-K for additional information on the OVEC power purchase contract.

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

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

## 11. Related Party Transactions

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

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been 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 purchases from an unaffiliated third party.

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

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing, formerly PPL EnergyPlus. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

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

PPL Services and LKS provide their respective PPL and LKE subsidiaries with administrative, management and support services. In 2015, PPL EU Services was formed to provide the majority of financial, supply chain, human resources and facilities management services primarily to PPL Electric. PPL Services will continue to provide certain corporate functions. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended June 30, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| PPL Electric from PPL Services | $ 25 | $ 38 | $ 55 | $ 79 |
| LKE from PPL Services | 4 | 4 | 8 | 8 |
| PPL Electric from PPL EU Services | 17 | | 32 | |
| LG&E from LKS | 53 | 57 | 104 | 105 |
| KU from LKS | 58 | 59 | 114 | 112 |

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

### Intercompany Borrowings *(LKE)*

LKE maintains a $225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. At June 30, 2015 and December 31, 2014, $59 million and $41 million were outstanding and were reflected in "Notes payable with affiliates" on the consolidated Balance Sheets. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at June 30, 2015 and December 31, 2014 were 1.68% and 1.65%. Interest on the revolving line of credit was not significant for the three and six months ended June 30, 2015 and 2014.

### 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. See Note 14 for additional information on intercompany derivatives.

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

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

## 12. Other Income (Expense) - net

*(PPL)*

"Other Income (Expense) - net" for the three and six months ended June 30, 2015 and 2014 consisted primarily of losses on economic foreign currency exchange contracts. See Note 14 for additional information on these derivatives.

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

The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2015 and 2014 for PPL Electric, LKE, LG&E and KU were not significant.

## 13. Fair Value Measurements and Credit Concentration

*(All Registrants)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2015 and 2014, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2014 Form 10-K for information on the levels in the fair value hierarchy.

## Recurring Fair Value Measurements

The assets and liabilities measured at fair value, excluding assets and liabilities of discontinued operations at December 31, 2014, were:

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| **PPL** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 846 | $ 846 | | | $ 1,399 | $ 1,399 | | |
| Short-term investments | | | | | 120 | 120 | | |
| Restricted cash and cash equivalents (a) | 32 | 32 | | | 31 | 31 | | |
| Price risk management assets (b): | | | | | | | | |
| Foreign currency contracts | 93 | | $ 93 | | 130 | | $ 130 | |
| Cross-currency swaps | 63 | | 63 | | 29 | | 28 | $ 1 |
| Total price risk management assets | 156 | | 156 | | 159 | | 158 | 1 |
| Auction rate securities (c) | 2 | | | $ 2 | 2 | | | 2 |
| Total assets | $ 1,036 | $ 878 | $ 156 | $ 2 | $ 1,711 | $ 1,550 | $ 158 | $ 3 |
| Liabilities | | | | | | | | |
| Price risk management liabilities (b): | | | | | | | | |
| Interest rate swaps | $ 104 | | $ 104 | | $ 156 | | $ 156 | |
| Foreign currency contracts | 20 | | 20 | | 2 | | 2 | |
| Cross-currency swaps | | | | | 3 | | 3 | |
| Total price risk management liabilities | $ 124 | | $ 124 | | $ 161 | | $ 161 | |
| **PPL Electric** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 28 | $ 28 | | | $ 214 | $ 214 | | |
| Restricted cash and cash equivalents (a) | 2 | 2 | | | 3 | 3 | | |
| Total assets | $ 30 | $ 30 | | | $ 217 | $ 217 | | |
| **LKE** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 13 | $ 13 | | | $ 21 | $ 21 | | |
| Cash collateral posted to counterparties (d) | 9 | 9 | | | 21 | 21 | | |
| Total assets | $ 22 | $ 22 | | | $ 42 | $ 42 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 91 | | $ 91 | | $ 114 | | $ 114 | |
| Total price risk management liabilities | $ 91 | | $ 91 | | $ 114 | | $ 114 | |
| **LG&E** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 7 | $ 7 | | | $ 10 | $ 10 | | |
| Cash collateral posted to counterparties (d) | 9 | 9 | | | 21 | 21 | | |
| Total assets | $ 16 | $ 16 | | | $ 31 | $ 31 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 68 | | $ 68 | | $ 81 | | $ 81 | |
| Total price risk management liabilities | $ 68 | | $ 68 | | $ 81 | | $ 81 | |
| **KU** | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | $ 6 | $ 6 | | | $ 11 | $ 11 | | |
| Total assets | $ 6 | $ 6 | | | $ 11 | $ 11 | | |
| Liabilities | | | | | | | | |
| Price risk management liabilities: | | | | | | | | |
| Interest rate swaps | $ 23 | | $ 23 | | $ 33 | | $ 33 | |
| Total price risk management liabilities | $ 23 | | $ 23 | | $ 33 | | $ 33 | |

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

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

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency 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. Cross-currency swaps are valued by PPL's Treasury department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

### Nonrecurring Fair Value Measurements

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, excluding long-term debt of discontinued operations at December 31, 2014. 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.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| PPL | $ 18,103 | $ 20,211 | $ 18,173 | $ 20,466 |
| PPL Electric | 2,603 | 2,855 | 2,602 | 2,990 |
| LKE | 4,567 | 4,810 | 4,567 | 4,946 |
| LG&E | 1,353 | 1,408 | 1,353 | 1,455 |
| KU | 2,091 | 2,222 | 2,091 | 2,313 |

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

## 14. Derivative Instruments and Hedging Activities

### Risk Management Objectives

*(All Registrants)*

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, 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, and VaR analyses.

### 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, volumes of full-requirement sales contracts, basis exposure, interest rates and foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

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

*Commodity price risk*

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K.

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

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

*Interest rate risk*

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

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

*Equity securities price risk*

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

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

*Foreign currency risk*

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

### Credit Risk

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

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

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

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

### Master Netting Arrangements

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

PPL, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at June 30, 2015 and December 31, 2014.

PPL, LKE and LG&E posted $9 million and $21 million of cash collateral under master netting arrangements at June 30, 2015 and December 31, 2014.

KU did not post any cash collateral under master netting arrangements at June 30, 2015 and December 31, 2014.

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

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

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

#### Cash Flow Hedges

*(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At June 30, 2015, PPL held an aggregate notional value in interest rate swap contracts of $1.3 billion that range in maturity through 2045. The amount outstanding includes swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses on the LG&E and KU 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 will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded.

At June 30, 2015, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $1.3 billion that range in maturity from 2016 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

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 probable of not occurring.

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 and reflected in discontinued operations for the three and six months ended June 30, 2015. See Note 8 for additional information. There were no such reclassifications for the three months ended June 30, 2014. For the six months ended June 30, 2014, PPL had an insignificant amount reclassified into earnings associated with discontinued cash flow hedges.

At June 30, 2015, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(29) million. Amounts are reclassified as the hedged interest expense is recorded.

*(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL that have terms identical to forward-starting swaps entered into by PPL with third parties. Realized gains and losses on all of these 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 will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded. At June 30, 2015, the total notional amount of forward starting interest rate swaps outstanding was $1 billion (LG&E and KU each held contracts of $500 million). The swaps range in maturity through 2045.

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

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At June 30, 2015, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033.

## Foreign Currency Risk

*(PPL)*

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

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at June 30, 2015 had a notional amount of £134 million (approximately $221 million based on contracted rates). The settlement dates of these contracts range from November 2015 through June 2016.

At June 30, 2015, PPL had $13 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to $14 million at December 31, 2014.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2015, the total exposure hedged by PPL was approximately £1.6 billion (approximately $2.5 billion based on contracted rates). These contracts had termination dates ranging from July 2015 through December 2017.

## 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 currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at June 30, 2015 and December 31, 2014.

See Notes 1 and 17 in each Registrant's 2014 Form 10-K for additional information on accounting policies related to derivative instruments.

*(PPL)*

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

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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) | | $ 59 | | $ 5 | | $ 94 | | $ 5 |
| Cross-currency swaps (b) | $ 28 | | | | | 3 | | |
| Foreign currency contracts | 12 | | $ 42 | 17 | $ 12 | | $ 67 | |
| Total current | 40 | 59 | 42 | 22 | 12 | 97 | 67 | 5 |
| Noncurrent: | | | | | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | | | | | |
| Interest rate swaps (b) | | | | 40 | | 14 | | 43 |
| Cross-currency swaps (b) | 35 | | | | 29 | | | |
| Foreign currency contracts | | | 39 | 3 | 5 | | 46 | 2 |
| Total noncurrent | 35 | | 39 | 43 | 34 | 14 | 46 | 45 |
| Total derivatives | $ 75 | $ 59 | $ 81 | $ 65 | $ 46 | $ 111 | $ 113 | $ 50 |

(a) Included in "Other current assets", "Other current liabilities", "Other noncurrent assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

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

| | | | | Three Months | | Six Months | |
|---|---|---|---|---|---|---|---|
| Derivative Relationships | Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months | Six Months | 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) | Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
| Cash Flow Hedges: | | | | | | | |
| Interest rate swaps | $ 17 | $ (2) | Interest expense | $ (3) | | $ (7) | |
| | | | Discontinued operations | | $ (77) | | $ (77) |
| Cross-currency swaps | 15 | 36 | Interest expense | 1 | | 2 | |
| | | | Other income (expense) - net | 15 | | 32 | |
| Commodity contracts | | | Discontinued operations | 6 | 7 | 13 | 7 |
| Total | $ 32 | $ 34 | | $ 19 | $ (70) | $ 40 | $ (70) |
| | | | | | | | |
| Net Investment Hedges: | | | | | | | |
| Foreign currency contracts | $ (17) | $ (1) | | | | | |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | Three Months | Six Months |
|---|---|---|---|
| Foreign currency contracts | Other income (expense) - net | $ (102) | $ (14) |
| Interest rate swaps | Interest expense | (2) | (4) |
| | Total | $ (104) | $ (18) |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 7 | $ 3 |

| Hedging Instruments | Regulatory Liabilities/Assets | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 76 | $ 20 |

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI, or regulatory assets and regulatory liabilities for the periods ended June 30, 2014.

| Derivative Relationships | Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months | Derivative Gain (Loss) Recognized in OCI (Effective Portion) Six Months | Location of Gain (Loss) Recognized in Income on Derivative | Three Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Three Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Six Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Six Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|---|---|---|---|---|---|---|
| Cash Flow Hedges: | | | | | | | |
| Interest rate swaps | $ (14) | $ (60) | Interest expense | $ (4) | | $ (9) | $ 2 |
| Cross-currency swaps | 9 | (16) | Interest expense | 1 | | 1 | |
| | | | Other income (expense) - net | | | (29) | |
| Commodity contracts | | | Discontinued operations | 13 | | 22 | |
| Total | $ (5) | $ (76) | | $ 10 | | $ (15) | $ 2 |
| Net Investment Hedges: | | | | | | | |
| Foreign currency contracts | $ (14) | $ (18) | | | | | |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | Three Months | Six Months |
|---|---|---|---|
| Foreign currency contracts | Other income (expense) - net | $ (72) | $ (96) |
| Interest rate swaps | Interest expense | (2) | (4) |
| | Total | $ (74) | $ (100) |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (2) | $ (6) |

*(LKE)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | June 30, 2015 Assets | June 30, 2015 Liabilities | December 31, 2014 Assets | December 31, 2014 Liabilities |
|---|---|---|---|---|
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 46 | | $ 66 |

(a) Represents the location on the Balance Sheets.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended June 30, 2015.

| Derivative Instruments | Location of Gain (Loss) | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 76 | $ 20 |

*(LG&E)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 23 | | $ 33 |

(a) Represents the location on the Balance Sheets.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended June 30, 2015.

| Derivative Instruments | Location of Gain (Loss) | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 38 | $ 10 |

*(KU)*

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 23 | | $ 33 |

(a) Represents the location on the Balance Sheets.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets for the periods ended June 30, 2015.

| Derivative Instruments | Location of Gain (Loss) | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 38 | $ 10 |

*(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.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | $ 5 | | $ 5 |
| Total current | | 5 | | 5 |

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Noncurrent: | | | | |
| Price Risk Management Assets/Liabilities (a): | | | | |
| Interest rate swaps | | 40 | | 43 |
| Total noncurrent | | 40 | | 43 |
| Total derivatives | | $ 45 | | $ 48 |

(a) Represents the location on the Balance Sheets.

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

| Derivative Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Interest expense | $ (2) | $ (4) |

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ 7 | $ 3 |

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2014.

| Derivative Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Interest expense | $ (2) | $ (4) |

| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets | Three Months | Six Months |
|---|---|---|---|
| Interest rate swaps | Regulatory assets - noncurrent | $ (2) | $ (6) |

*(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 trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

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

| | Assets | | | | Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | | Eligible for Offset | | | | Eligible for Offset | | |
| | Gross | Derivative Instruments | Cash Collateral Received | Net | Gross | Derivative Instruments | Cash Collateral Pledged | Net |
| June 30, 2015 | | | | | | | | |
| Treasury Derivatives | | | | | | | | |
| PPL | $ 156 | $ 64 | | $ 92 | $ 124 | $ 64 | $ 9 | $ 51 |
| LKE | | | | | 91 | | 9 | 82 |
| LG&E | | | | | 68 | | 9 | 59 |
| KU | | | | | 23 | | | 23 |

| | Assets | | | | Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | | Eligible for Offset | | | | Eligible for Offset | | |
| | Gross | Derivative Instruments | Cash Collateral Received | Net | Gross | Derivative Instruments | Cash Collateral Pledged | Net |
| **December 31, 2014** | | | | | | | | |
| **Treasury Derivatives** | | | | | | | | |
| PPL | $ 159 | $ 65 | | $ 94 | $ 161 | $ 65 | $ 21 | $ 75 |
| LKE | | | | | 114 | | 20 | 94 |
| LG&E | | | | | 81 | | 20 | 61 |
| KU | | | | | 33 | | | 33 |

## Credit Risk-Related Contingent Features

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

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

*(PPL, LKE and LG&E)*

At June 30, 2015, 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 | $ 42 | $ 28 | $ 28 |
| Aggregate fair value of collateral posted on these derivative instruments | 9 | 9 | 9 |
| Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a) | 33 | 19 | 19 |

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

## 15. Goodwill

*(PPL)*

The change in the carrying amount of goodwill for the six months ended June 30, 2015 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

## 16. Asset Retirement Obligations

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

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

| | PPL | LKE | LG&E | KU |
|---|---|---|---|---|
| Balance at December 31, 2014 | $ 336 | $ 285 | $ 74 | $ 211 |
| Accretion | 8 | 7 | 2 | 5 |
| Changes in estimated cash flow or settlement date | 163 | 163 | 46 | 117 |
| Effect of foreign currency exchange rates | (2) | | | |
| Obligations settled | (2) | (2) | (2) | |
| Balance at June 30, 2015 | $ 503 | $ 453 | $ 120 | $ 333 |

Substantially all of the ARO balances are classified as noncurrent at June 30, 2015 and December 31, 2014.

In connection with the final CCR rule, LG&E and KU recorded increases of $162 million ($45 million at LG&E and $117 million at KU) to the existing AROs during the second quarter of 2015. Further increases to AROs or changes to current capital plans or to operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results and regulatory or legal proceedings. PPL, LKE, LG&E and KU believe relevant costs relating to this rule are subject to rate recovery. See Note 10 for information on the final CCR rule.

LG&E's and KU's accretion and ARO-related depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

## 17. Accumulated Other Comprehensive Income (Loss)

*(PPL and LKE)*

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

| | Foreign currency translation adjustments | Unrealized gains (losses) | | Equity investees' AOCI | Defined benefit plans | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Available-for-sale securities | Qualifying derivatives | | Prior service costs | Actuarial gain (loss) | Transition asset (obligation) | |
| **PPL** | | | | | | | | |
| **March 31, 2015** | $ (352) | $ 206 | $ 9 | $ | $ 3 | $ (2,178) | $ 1 | $ (2,311) |
| Amounts arising during the period | (83) | 2 | 21 | | (6) | 53 | | (13) |
| Reclassifications from AOCI | | (1) | 27 | | | 38 | | 64 |
| Net OCI during the period | (83) | 1 | 48 | | (6) | 91 | | 51 |
| Distribution of PPL Energy Supply (Note 8) | | (207) | (55) | | | 238 | | (24) |
| **June 30, 2015** | $ (435) | $ | $ 2 | $ | $ (3) | $ (1,849) | $ 1 | $ (2,284) |
| **December 31, 2014** | $ (286) | $ 202 | $ 20 | $ 1 | $ 3 | $ (2,215) | $ 1 | $ (2,274) |
| Amounts arising during the period | (149) | 7 | 27 | | (6) | 52 | | (69) |
| Reclassifications from AOCI | | (2) | 10 | (1) | | 76 | | 83 |
| Net OCI during the period | (149) | 5 | 37 | (1) | (6) | 128 | | 14 |
| Distribution of PPL Energy Supply (Note 8) | | (207) | (55) | | | 238 | | (24) |
| **June 30, 2015** | $ (435) | $ | $ 2 | $ | $ (3) | $ (1,849) | $ 1 | $ (2,284) |
| **March 31, 2014** | $ 120 | $ 177 | $ 67 | $ 1 | $ (5) | $ (1,790) | $ 1 | $ (1,429) |
| Amounts arising during the period | (3) | 14 | (1) | | | (2) | | 8 |
| Reclassifications from AOCI | | (1) | (5) | | 1 | 28 | | 23 |
| Net OCI during the period | (3) | 13 | (6) | | 1 | 26 | | 31 |
| **June 30, 2014** | $ 117 | $ 190 | $ 61 | $ 1 | $ (4) | $ (1,764) | $ 1 | $ (1,398) |
| **December 31, 2013** | $ (11) | $ 173 | $ 94 | $ 1 | $ (6) | $ (1,817) | $ 1 | $ (1,565) |
| Amounts arising during the period | 128 | 19 | (47) | | | (2) | | 98 |
| Reclassifications from AOCI | | (2) | 14 | | 2 | 55 | | 69 |
| Net OCI during the period | 128 | 17 | (33) | | 2 | 53 | | 167 |
| **June 30, 2014** | $ 117 | $ 190 | $ 61 | $ 1 | $ (4) | $ (1,764) | $ 1 | $ (1,398) |
| **LKE** | | | | | | | | |
| **March 31, 2015** | | | | $ (1) | $ (8) | $ (36) | | $ (45) |
| Amounts arising during the period | | | | | | (8) | | (8) |
| Reclassifications from AOCI | | | | | 1 | | | 1 |
| Net OCI during the period | | | | | 1 | (8) | | (7) |
| **June 30, 2015** | | | | $ (1) | $ (7) | $ (44) | | $ (52) |

| | Foreign currency translation adjustments | Unrealized gains (losses) Available-for-sale securities | Qualifying derivatives | Equity investees' AOCI | Defined benefit plans Prior service costs | Actuarial gain (loss) | Transition asset (obligation) | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2014** | | | | | $ (8) | $ (37) | | $ (45) |
| Amounts arising during the period | | | | | | (8) | | (8) |
| Reclassifications from AOCI | | | | $ (1) | 1 | 1 | | 1 |
| Net OCI during the period | | | | (1) | 1 | (7) | | (7) |
| **June 30, 2015** | | | | $ (1) | $ (7) | $ (44) | | $ (52) |
| **March 31, 2014** | | | | | $ (2) | $ 14 | | $ 12 |
| Amounts arising during the period | | | | | | (2) | | (2) |
| Net OCI during the period | | | | | | (2) | | (2) |
| **June 30, 2014** | | | | | $ (2) | $ 12 | | $ 10 |
| **December 31, 2013** | | | | $ 1 | $ (2) | $ 14 | | $ 13 |
| Amounts arising during the period | | | | | | (2) | | (2) |
| Reclassifications from AOCI | | | | (1) | | | | (1) |
| Net OCI during the period | | | | (1) | | (2) | | (3) |
| **June 30, 2014** | | | | | $ (2) | $ 12 | | $ 10 |

*(PPL)*

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

| Details about AOCI | Three Months 2015 | Three Months 2014 | Six Months 2015 | Six Months 2014 | Affected Line Item on the Statements of Income |
|---|---|---|---|---|---|
| Available-for-sale securities | $ 2 | $ 2 | $ 4 | $ 4 | Other Income (Expense) - net |
| Total Pre-tax | 2 | 2 | 4 | 4 | |
| Income Taxes | (1) | (1) | (2) | (2) | |
| Total After-tax | 1 | 1 | 2 | 2 | |
| Qualifying derivatives | | | | | |
| Interest rate swaps | (3) | (4) | (7) | (7) | Interest Expense |
| | (77) | | (77) | | Discontinued operations |
| Cross-currency swaps | 15 | | 32 | (29) | Other Income (Expense) - net |
| | 1 | 1 | 2 | 1 | Interest Expense |
| Energy commodities | 13 | 13 | 20 | 22 | Discontinued operations |
| Total Pre-tax | (51) | 10 | (30) | (13) | |
| Income Taxes | 24 | (5) | 20 | (1) | |
| Total After-tax | (27) | 5 | (10) | (14) | |
| Equity investees' AOCI | | | 2 | | Other Income (Expense) - net |
| Total Pre-tax | | | 2 | | |
| Income Taxes | | | (1) | | |
| Total After-tax | | | 1 | | |
| Defined benefit plans | | | | | |
| Prior service costs | | (2) | | (4) | |
| Net actuarial loss | (50) | (36) | (101) | (72) | |
| Total Pre-tax | (50) | (38) | (101) | (76) | |
| Income Taxes | 12 | 9 | 25 | 19 | |
| Total After-tax | (38) | (29) | (76) | (57) | |
| Total reclassifications during the period | $ (64) | $ (23) | $ (83) | $ (69) | |

## 18. New Accounting Guidance Pending Adoption

*(All Registrants)*

Accounting for Revenue from Contracts with Customers

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

This guidance can be applied using either a full retrospective or modified retrospective transition method. The FASB has affirmed a recent proposal to defer the effective date of the standard by one year, which for public business entities, would result in initial application of this guidance in annual reporting periods beginning after December 15, 2017 and interim periods within those years. The proposed standard allows entities to early adopt the guidance as of the original effective date of the standard, which for public business entities is annual reporting periods beginning after December 15, 2016. Pending the FASB's issuance of the effective date deferral, the Registrants expect to adopt this guidance effective January 1, 2018.

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

Reporting Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued accounting guidance which will require management to assess, for each interim and annual period, whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued.

When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management is required to disclose information that enables users of the financial statements to understand the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern and management's evaluation of the significance of those conditions or events. If substantial doubt about the entity's ability to continue as a going concern has been alleviated as a result of management's plan, the entity should disclose information that allows the users of the financial statements to understand those plans. If the substantial doubt about the entity's ability to continue as a going concern is not alleviated by management's plans, management's plans to mitigate the conditions or events that gave rise to the substantial doubt about the entity's ability to continue as a going concern should be disclosed, as well as a statement that there is substantial doubt the entity's ability to continue as a going concern within one year after the date the financial statements are issued.

For all entities, this guidance should be applied prospectively within the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted.

The Registrants will adopt this guidance for the annual period ending December 31, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued guidance that clarifies how current accounting guidance should be interpreted when evaluating the economic characteristics and risks of a host contract of a hybrid financial instrument issued in the form of a share. This guidance does not change the current criteria for determining whether separation of an embedded derivative feature from a hybrid financial instrument is required. Entities are still required to evaluate whether the economic risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria.

An entity should consider the substantive terms and features of the entire hybrid financial instrument, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract to determine whether the host contract is more akin to a debt instrument or more akin to an equity instrument. An entity should assess the relative strength of the debt-like and equity-like terms and features when determining how to weight those terms and features.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and should be applied using a modified retrospective method for existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year the guidance is adopted. Early adoption is permitted. Retrospective application is permitted but not required.

The Registrants will adopt this guidance on January 1, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Income Statement Presentation of Extraordinary and Unusual Items

In January 2015, the FASB issued accounting guidance that eliminates the concept of extraordinary items, which requires an entity to separately classify, present in the income statement and disclose material events and transactions that are both unusual and occur infrequently. The requirement to report material events or transactions that are unusual or infrequent as a separate component of income from continuing operations has been retained, as has the requirement to separately present the nature and financial effects of each event or transaction in the income statement as a separate component of continuing operations or disclose them within the notes to the financial statements. The scope of these requirements has been expanded to include items that are both unusual and occur infrequently.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted provided that an entity applies the guidance from the beginning of the fiscal year of adoption. The guidance may be applied either retrospectively or prospectively.

The Registrants will adopt this guidance on January 1, 2016. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued accounting guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the presentation of debt discounts.

For public business entities, this guidance should be applied retrospectively for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted.

The Registrants will adopt this guidance on January 1, 2016. The adoption of this guidance will require the Registrants to reclassify debt issuance costs from assets to long-term debt, and is not expected to have a significant impact on the Registrants.

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

*(All Registrants)*

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

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2014 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

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

- "Results of Operations" for PPL provides a detailed analysis of earnings by segment, and for PPL Electric, LKE, LG&E and KU, includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2015 with the same periods in 2014.

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

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

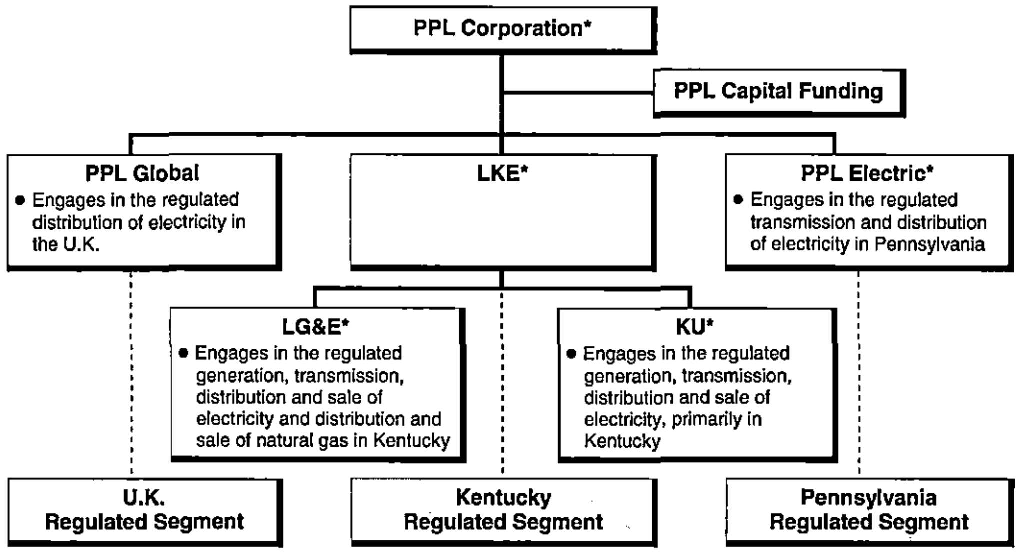
## Overview

### Introduction

*(PPL)*

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. The transaction was completed on June 1, 2015. See "Financial and Operational Developments - Other Financial and Operational Developments - Spinoff of PPL Energy Supply" below for additional information.

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




PPL's reportable segments' results primarily represent the results of the Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment does not have a related Subsidiary Registrant.

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

*(PPL Electric)*

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

*(LKE)*

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

*(LG&E)*

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

*(KU)*

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

## Business Strategy

*(All Registrants)*

The strategy for the regulated businesses of WPD, PPL Electric, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.K. regulated businesses, effective April 1, 2015 under the RIIO-ED1 price control period, 80% of network related expenditures are added to the RAV and, together with adjustments for inflation as measured by Retail Price Index (RPI) and a return on RAV, recovered through allowed revenue with the remaining 20% of expenditures being recovered in the current regulatory year. RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses). The RAV balance at March 31, 2015 will continue to be recovered over 20 years and additions after April 1, 2023 will be recovered over 45 years; a transitional arrangement will gradually change the recoverable life during the current eight-year price control period, resulting in an expected average useful life of 35 years for RAV additions in that period. In addition, incentive targets have been adjusted in RIIO-ED1, resulting in lower total available incentive revenues. See "Financial and Operational Developments - Other Financial and Operational Developments - RIIO-ED1" below for additional information.

For the U. S. regulated businesses, recovery of capital project costs is achieved through various rate-making mechanisms, including periodic base rate case proceedings, annual FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, prudently incurred costs.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain 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 related, as applicable, 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.

*(PPL)*

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

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL has no continuing ownership interest in, control of, or affiliation with Talen Energy and Talen Energy Supply (formerly, PPL Energy Supply). The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

Going forward, PPL's focus will be on its regulated utility businesses in the U.K., Kentucky and Pennsylvania, serving more than 10 million customers. PPL intends to maintain a strong balance sheet and manage its finances consistent with maintaining investment grade credit ratings and providing a competitive total shareowner return, including an attractive dividend. Excluding costs required to provide transition services to Talen Energy and following the spinoff transaction, PPL expects to reduce annual ongoing corporate support costs by approximately $75 million.

See "Financial and Operational Developments - Other Financial and Operational Developments - Costs of Spinoff" and "Loss on Spinoff" below for additional information.

## Financial and Operational Developments

### Earnings *(PPL)*

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

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | $ Change | 2015 | 2014 | $ Change |
| U.K. Regulated | $ 190 | $ 187 | $ 3 | $ 565 | $ 393 | $ 172 |
| Kentucky Regulated | 47 | 58 | (11) | 156 | 165 | (9) |
| Pennsylvania Regulated | 49 | 52 | (3) | 136 | 137 | (1) |
| Corporate and Other (a) | (36) | (67) | 31 | (55) | (76) | 21 |
| Income from Continuing Operations After Income Taxes | 250 | 230 | 20 | 802 | 619 | 183 |
| Discontinued Operations (b) | (1,007) | (1) | (1,006) | (912) | (74) | (838) |
| Net Income (Loss) | $ (757) | $ 229 | $ (986) | $ (110) | $ 545 | $ (655) |
| Income from Continuing Operations After Income Taxes | | | | | | |
| EPS - basic | $ 0.37 | $ 0.35 | 0.02 | $ 1.20 | $ 0.96 | $ 0.24 |
| EPS - diluted (c) | $ 0.37 | $ 0.34 | 0.03 | $ 1.19 | $ 0.94 | $ 0.25 |
| Net Income (Loss) | | | | | | |
| EPS - basic | $ (1.13) | $ 0.35 | (1.48) | $ (0.17) | $ 0.84 | $ (1.01) |
| EPS - diluted (c) | $ (1.13) | $ 0.34 | (1.47) | $ (0.17) | $ 0.83 | $ (1.00) |

(a) Primarily includes unallocated corporate-level financing and other costs. Also includes certain costs related to the spinoff of PPL Energy Supply. See the following table of special items for additional information.
(b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's Supply segment, the earnings of the Supply segment are included in Discontinued Operations. Included is 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 applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.
(c) See Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's results for the periods ended June 30. See PPL's "Results of Operations - Segment Earnings" for details of each segment's special items.

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | Change | 2015 | 2014 | $ Change |
| U.K. Regulated | $ (53) | $ (33) | $ (20) | $ (14) | $ (91) | $ 77 |
| Kentucky Regulated | (12) | 1 | (13) | (12) | 1 | (13) |
| Pennsylvania Regulated | | (4) | 4 | | (4) | 4 |
| Corporate and Other (a) | (14) | (50) | 36 | (20) | (52) | 32 |
| Discontinued Operations (b) | (1,007) | (1) | (1,006) | (912) | (74) | (838) |
| Total PPL | $ (1,086) | $ (87) | $ (999) | $ (958) | $ (220) | $ (738) |

(a) 2015 primarily includes transition costs related to the spinoff of PPL Energy Supply. 2014 primarily includes $46 million of deferred income tax expense to adjust valuation allowances that were previously supported by the earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.
(b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's Supply segment, the earnings of the Supply segment are included in Discontinued Operations and considered to be a special item. Included is 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 applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information.

### 2015 Outlook

*(PPL)*

Excluding special items, higher earnings are expected in 2015 compared with 2014, after adjusting 2014 to include certain dissynergies in the Corporate and Other category related to the spinoff of PPL Energy Supply. This increase is primarily attributed to increases in the U.K. Regulated and Kentucky Regulated segments and lower Corporate and Other charges. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

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

Excluding special items, higher earnings are projected in 2015 compared with 2014, primarily driven by lower income taxes and lower depreciation expense, partially offset by lower utility revenue as WPD transitions to a new eight-year price control period (RIIO-ED1) effective April 1, 2015. The remaining 2015 foreign currency earnings exposure for this segment is fully hedged.

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

Excluding special items, higher earnings are projected in 2015 compared with 2014, primarily driven by electric and gas base rate increases effective July 1, 2015, and returns on additional environmental capital investments, partially offset by higher operation and maintenance expense, higher depreciation and higher financing costs.

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

Excluding special items, lower earnings are projected in 2015 compared with 2014, primarily driven by higher operation and maintenance expense, higher depreciation, higher financing costs and a benefit recorded in the first quarter of 2014 for a change in estimate of a regulatory liability, partially offset by higher transmission margins and returns on distribution improvement capital investments.

*(PPL's Corporate and Other Category)*

Excluding special items, lower costs are projected in 2015 compared with 2014, after adjusting 2014 to include certain dissynergies in the Corporate and Other category related to the spinoff of PPL Energy Supply, primarily driven by the reduction of those dissynergies in 2015 through corporate restructuring efforts and lower income taxes.

*(All Registrants)*

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2014 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

## Other Financial and Operational Developments

### *Regulatory Requirements*

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

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, ELGs and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements have led PPL, LKE, LG&E and KU, to announce plans to close certain of their coal-fired generating plants.

As a result of the environmental requirements discussed above, LKE projects $2.2 billion ($1.1 billion each at LG&E and KU) in capital investment over the next five years and anticipates retiring two coal-fired units at KU no later than early 2016 with a combined summer capacity rating of 161 MW. LG&E retired a 240 MW coal-fired unit in March 2015 and two additional coal-fired units, with a combined summer capacity rating of 323 MW, in June 2015 at the Cane Run plant. The retirement of these units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E and KU.

*(All Registrants)*

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

### Spinoff of PPL Energy Supply

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

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in, control of, or affiliation with Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

#### Loss on Spinoff

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

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

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

The following table summarizes PPL's fair value analysis:

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

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

Company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

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

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

Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (Classified as Level 3) was below its carrying value of $4.1 billion and recorded a loss on the spinoff of $879 million, 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 as discussed in "Business Strategy" above, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges for employee separation benefits were recorded. See Note 8 in the 2014 Form 10-K for additional information. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to be completed by the end of 2015. At June 30, 2015 and December 31, 2014, the recorded liabilities related to the separation benefits were $13 million and $21 million, which are included in "Other current liabilities" on the Balance Sheets.

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

PPL recorded $36 million and $42 million of third-party costs related to this transaction during the three and six months ended June 30, 2015. Of these costs, $29 million and $31 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $7 million and $11 million of consulting and other costs were incurred to prepare the new Talen Energy organization for the spinoff and reconfigure the remaining PPL service functions. These costs are primarily recorded in "Other operation and maintenance" on the Statement of Income. PPL recorded $16 million of third-party costs related to this transaction during the three and six months ended June 30, 2014. No significant additional third-party costs are expected to be incurred.

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

*Discontinued Operations*

The operations of the Supply segment are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income.

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

Net assets, after recognition of the loss on spinoff, of $3.2 billion were distributed to PPL shareowners on June 1, 2015, as a result of the completion of the spinoff of PPL Energy Supply.

See Note 8 to the financial statements for additional information related to the spinoff of PPL Energy Supply.

### *RIIO-ED1*

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs. In February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs under RIIO-ED1 were accepted as submitted, or "fast-tracked." Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures during the eight-year price control period, or approximately $43 million annually, greater revenue certainty and a higher level of cost savings retention. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2014 Form 10-K for additional information on RIIO-ED1.

### *Depreciation*

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years. For the three and six months ended June 30, 2015, this change in useful lives resulted in lower depreciation of $22 million ($17 million after-tax or $0.03 per share) and $42 million ($33 million after-tax or $0.05 per share). It is expected to result in an annual reduction in depreciation of approximately $86 million ($68 million after-tax or $0.10 per share) in 2015.

### *IRS Audits for 1998 - 2011*

In February 2015, PPL and the IRS Appeals division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. In April 2015, PPL was notified that the Joint Committee on Taxation approved PPL's settlement. In the second quarter of 2015, PPL recorded a tax benefit of $23 million, which includes an estimate of interest on the refund. Of this amount, $11 million is reflected in continuing operations. Final determination of interest on the refund is still pending from the IRS.

*(PPL and PPL Electric)*

### *Rate Case Proceedings*

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The proposal would result in a rate increase of 3.9% on a total bill basis and is expected to become effective on January 1, 2016. PPL Electric's application includes a request for an authorized return-on-equity of 10.95%. The application is based on a fully projected future test year of January 1, 2016 through December 31, 2016.

Concurrently, PPL Electric filed a petition requesting a waiver of the DSIC cap of 5% of billed revenues and approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered after January 1, 2016. PPL Electric requested that the PUC consolidate these two proceedings and the Administrative Law Judge granted PPL Electric's request.

*(PPL, LKE and KU)*

### *FERC Wholesale Formula Rates*

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