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INVESTORS SERVICE

Credit Opinion: PPL Corporation

Global Credit Research - 28 Mar 2013

Allentown, Pennsylvania, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Pref. Shelf	(P)Ba2
Western Power Distrib (East Midlands) Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2
Western Power Distrib (West Midlands) Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL Energy Supply, LLC	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2

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Key Indicators

[1]PPL Corporation

	2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	3.9x	4.0x	5.1x	4.5x
(CFO Pre-W/C) / Debt	14%	15%	18%	19%
(CFO Pre-W/C - Dividends) / Debt	10%	11%	14%	13%
Debt / Book Capitalization	62%	55%	56%	55%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Growing share of the regulated business

-Regulated businesses operate under above average regulatory frameworks

-Falling cash flow from unregulated activities pressuring consolidated credit metrics

-Substantial capital investment program due to pending environmental regulations

-As a holding company, PPL creditors are impacted by structural subordination

Corporate Profile

PPL Corporation (PPL: Baa3 Issuer Rating, stable) is a diversified energy holding company headquartered in Allentown, PA. PPL owns or controls about 19,000 megawatts of generating capacity in the US, sells energy in key U.S. markets, and delivers electricity and natural gas to about 10 million customers in the US and the UK.

SUMMARY RATING RATIONALE

PPL's rating is reflective of the consolidated credit profile which has been transformed from a largely merchant commodity driven and regionally focused operation, to a more diversified and rate regulated platform. We estimate that in 2013 85% of consolidated results will be provided by more predictable, rate-regulated businesses from three different jurisdictions, several of which have an above-average regulatory profile. To that end, the rating incorporates the reduced reliance that PPL will have on earnings and dividends derived from its less predictable unregulated, commodity business which will experience reduced margins due to lower commodity prices. The rating recognizes the growing importance that the company's Kentucky operations will have on future results which include plans to make substantial environmental capital investments. We observe that the transition to market rates in Pennsylvania has been completed for all of the state's electric utilities, and that the company's focus is centered on infrastructure investment, through the replacement of an aging transmission and distribution system coupled with new transmission and smart grid investments.

DETAILED RATING CONSIDERATIONS

- Regulated business is growing organically and through acquisitions.

PPL's acquisition of four large regulated utility systems located in Kentucky and in the UK during 2010 and 2011 have transformed the company's business platform to a broader, more diversified rate-regulated business model from one that was highly dependent on the company's commodity business.

We estimate that 85% of PPL's consolidated results going forward will be provided by the more predictable, rate regulated businesses from three different jurisdictions, two of which have, in our opinion, an above-average regulatory profile. Specifically, the UK networks business operates under a highly transparent regulatory framework which we consider to be well-above average and where the tariffs have been approved through March 2015. PPL has owned and operated a networks business in the UK since 1996, and has consistently outperformed its peer companies. PPL's ownership of two Kentucky vertically-integrated utilities, Louisville Gas and Electric Company (LG&E: Baa1 senior unsecured) and Kentucky Utilities Companies (KU: Baa1 senior unsecured) should provide consistent earnings and cash flow under an above average regulated framework where substantial environmental capital investment and growth in rate base assets are expected over the next several years. With the most recent development, the Kentucky Public Service Commission (KPSC) approved a rate case settlement in December 2012. We consider the outcome, which includes an authorized return on equity of 10.25% and a gas-line tracker mechanism, to be supportive of outstanding ratings. Together, we estimate that the UK and Kentucky operations alone will provide almost 60% of the company's earnings and cash flow in most years.

In Pennsylvania, PPL's focus is on infrastructure investment. We observe that from a credit perspective, the PPL Electric Utilities (PPL EU Baa2 senior unsecured) subsidiary received a generally favorable result in its most recent rate case and we expect the company to have substantial capital investment requirements for infrastructure, smart grid and transmission projects. On March 30th 2012, the company filed an electric distribution rate case with the state regulator for recovery of past infrastructure capital investments resulting in a $105 million revenue requirement. In December, 2012 the state regulators approved a $71.1 million rate increase which management believes is still adequate to make the necessary investments to replace aging infrastructure. The authorized return on equity was 10.4%.

Overall, we consider the regulatory environment in the state to be moderately above average when compared to other state regulatory environments. To that end, the state passed a law in 2012 to allow for a distribution system improvement charge (DSIC) in rates, designed to recover capital project costs incurred to repair, improve or replace aging electric and natural gas distribution systems. The bill also includes a provision that allows utilities to use a fully projected future test year permitting the inclusion of projected capital costs in the rate base for assets that will be placed in service during the future test year. In January 2013, PPL EU filed a request with the Pennsylvania Public Utility Commission to implement a DSIC charge to accelerate recovery of about $700 million in new capital investments that will improve system reliability over the next five years. If approved, this mechanism would take effect in May 2013.

PPL Energy Supply, LLC (PPL Supply: Baa2 senior unsecured) owns competitive generation assets in PJM and in the western US. Contribution from this subsidiary, both in absolute terms and relative to consolidated results, has been declining and is likely to continue to decline. In 2010, the earnings contribution from PPL Supply was $619 million out of a total of $938 million (or 66%). By 2012, PPL Supply's contribution was down to $474 million out of $1,532 million (or 31%) due, in part, to the acquisition of four rate-regulated utilities in 2010 and 2011.

For more information on PPL's operating subsidiaries, please refer to moodys.com.

-PPL's consolidated credit metrics are adequately positioned for its low investment grade rating.

For the past three years, we calculate that PPL's cash flow (CFO pre-W/C) averaged about $3.0 billion with the company recording cash flow to debt metrics of 15.5% at 12/31/2012. Similarly, we calculate that cash flow interest coverage averaged 4.2x for the past three years with 3.9x registered in 2012. Some of this historical performance can be attributed to the performance at PPL Supply, particularly in 2010, when generation rate caps in Pennsylvania were lifted. We expect PPL's consolidated credit metrics to trend lower in the next few years, with CFO pre-WC/debt closer to 13% to 14%. This is mainly due to the weaker performance at the merchant subsidiary, partially offset by a higher contribution from the predictable but lower margin rate regulated operations. Most importantly, in the future we anticipate the company's financial performance to be substantially more resilient to a declining commodity environment given the greater diversity in operations and the increased contributions from more predictable sources of cash flow and earnings.

-Substantial capital investment program anticipated stemming from pending environmental regulations

Beginning in 2013 over the next five years, PPL will embark on a sizeable capital expenditure plan approximating $18.2 billion (annual average of $3.6 billion). By comparison, PPL's capital expenditures averaged $1.6 billion over the previous four year period. While a large portion of this comparison reflects the incorporation of the two acquisitions as well as the impact of lower capital spending in 2009 due to the anemic economy, capital spending for the rate regulated businesses is expected to show material increases. About $2.2 billion is earmarked for investments in FERC regulated transmission projects at PPL EU, including the planned Susquehanna-Roseland line linking Pennsylvania and New Jersey which gained its final approval on October 1st, 2012. PPL expects to energize the transmission line sometime in mid 2015.

PPL expects to spend $6.1 billion at the Kentucky utilities over this five year period including about $2.3 billion for environmental capital projects. The increased capital spend follows the December 2011 unanimous approval by the Kentucky Public Service Commission of a settlement with KU and LG&E concerning recovery of these capital costs under the state's Environmental Cost Recovery (ECR) mechanism. Under the ECR, KU and LG&E are permitted to recover the costs associated with environmental-related investments, and earn a cash return on the related construction work in progress. The ECR calls for KU to invest $712 million and LG&E to invest $1.0 billion in environmental upgrades to meet recent EPA regulations, and earn an ROE of 10.25% on these investments. KU will install baghouses at the Ghent generating station and a baghouse on unit 3 at the Brown station while LG&E will install scrubbers and baghouses at the Mill Creek generating station and a baghouse for Unit 1 at the Trimble County station. In addition, KU and LG&E will earn a 10.25% ROE on about $370-$400 million of capital investments relating to previously approved projects, and have also agreed to fund certain assistance programs.

-Structural subordination

PPL's rating reflects the structurally subordinate position of holding company obligations relative to the $15.9 billion of secured and unsecured long-term debt issued at various operating subsidiaries and intermediate holding companies. While PPL does not currently have any funded long-term senior debt obligations at the parent holding company level, it guarantees nearly $3.05 billion of subordinated debt issued by PPL Capital Funding, Inc., the majority of which was used to finance the 2010 and 2011 acquisitions.

Liquidity Profile

PPL's liquidity is adequately sized for the demands of its operations. At the end of 2012, PPL had about $900 million of cash and $3.7 billion in US dollars and ?889 in British Pounds of unused committed credit facilities. The primary demand for liquidity in 2013 is a projected free cash flow deficit of about $2.6 billion. This large deficit is mainly driven by the $3.7 billion of capital expenditure at its low risk regulated utilities. As of December 31, 2012, debt maturities in 2013 include $751 million of long-term debt, all issued at PPL Supply, and $652 million of short-term debt.

Rating Outlook

The stable outlook for PPL reflects our view that PPL's credit quality has been fortified through the growing share of its regulated business. The stable outlook also incorporates a view that the company's large capital investment will be prudently financed, to include if needed, the issuance of common equity. The unregulated generation assets' cash flow generating capacity is expected to be lower over the next several years but further downsides are moderated by hedging and its declining share to the consolidated cash flow.

What Could Change the Rating - Up

While the growing share of the regulated businesses forms a positive rating momentum at PPL, potential for upgrade is currently limited by the cash flow drag of its unregulated merchant operations, which negatively affects the consolidated credit metrics.

What Could Change the Rating - Down

While we do not foresee any particular event that would result in a negative rating action, the company's cash flow to debt credit metrics are expected to be weaker going forward due to the declining cash flow coming from its unregulated operations. As a result, the company has a smaller margin of error for a negative rating action.

Rating Factors

PPL Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2012		Moody's 12-18 month Forward View* As of December 2012	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		Ba		Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.2x	Baa	3-4x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	15.5%	Baa	13-16%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	11.6%	Baa	8-12%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	57.9%	Ba	50-55%	Ba
Rating:				

a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa3		Baa3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012(L); Source: Moody's Financial Metrics

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Rating Action: Moody's upgrades the ratings of PPL US utility subsidiaries and confirms the rating of PPL Corp. and LKE; rating outlook stable.

Global Credit Research - 31 Jan 2014

Approximately $10.8 Billion of Debt Affected

New York, January 31, 2014 -- Moody's Investors Service today upgraded the ratings of PPL Corporation's US utility operating subsidiaries: the rating of PPL Electric Utilities (PPLEU) was upgraded to Baa1 from Baa2 and the ratings of Louisville Gas & Electric Company (LGE) and Kentucky Utilities (KU) were upgraded to A3 from Baa1. Moody's confirmed the senior unsecured ratings of PPL Corporation (PPL) at Baa3 and of LG&E and KU Energy LLC (LKE) at Baa2. This rating action completes our review of PPL and its regulated operations initiated on November 8, 2013. The outlook for all PPL entities is stable.

The primary driver of today's positive rating action on PPL's US utility operating companies was Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

The review, however, did not result in a corresponding upgrade for the parent holding company PPL because the upgrades of PPL's US regulated utilities, which represent 31% of earnings, did not shift PPL's consolidated credit profile sufficiently. PPL's consolidated financial metrics are also weak for its rating category. LKE did not receive an upgrade because of the high debt level at LKE relative to the consolidated LKE. Moreover, because there is free movement of cash between PPL and LKE, PPL has a constraining effect on LKE's ratings.

RATINGS RATIONALE

The ratings of PPL and its utility subsidiaries are underpinned by regulatory environments that, while they may vary somewhat from jurisdiction to jurisdiction, are generally supportive of utility credit quality and by an energy commodity market that has alleviated some of the pressure on rates generally. Additionally, PPL's rating is reflective of the consolidated credit profile which has been transformed from a heavily merchant commodity driven and regionally focused operation, to a more diversified and mostly rate regulated platform. These positive factors are balanced against financial metrics on a consolidated basis that have been on the lower end of the range for benchmarks established for regulated utilities. As of end of third quarter 2013, PPL's CFO Pre-WC/debt averaged over the past three years is 15.5%, while the benchmark for regulated utilities in the Baa category is between 13% and 22%.

Rating Outlook

The stable outlook for PPL reflects our view that PPL's credit quality has been fortified through the growing share of its regulated business. The stable outlook also incorporates a view that the company's large capital investment will be prudently financed, to include if needed, the issuance of common equity. The unregulated generation assets' cash flow generating capacity is expected to be lower over the next several years but further downsides are moderated by hedging and its declining share to the consolidated cash flow.

What Could Change the Rating -- Up

Potential for upgrade is currently limited by its financial metrics which are weak for its ratings. Upgrade is possible if exposure to unregulated activity continue to decline while cash flow to debt ratio improves 20% or above on a sustained basis.

What Could Change the Rating - Down

While we do not foresee any particular event that would result in a negative rating action, the company's cash flow to debt credit metrics are expected to be weaker going forward due to the declining cash flow coming from its unregulated operations. As a result, the company has a smaller margin of error for a negative rating action.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December

2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Issuer: PPL Corporation

Outlook revised to stable from RUR-UP

Confirmed:

LT Issuer Rating: Baa3

Pref. Shelf ratings: (P)Ba2

Issuer: PPL Electric Utilities Corporation

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to Baa1 from Baa2

Senior unsecured to Baa1 from Baa2

Senior secured to A2 from A3

First Mortgage Bonds to A2 from A3

Preference Shelf to (P)Baa3 from (P)Ba1

Senior Secured Shelf to (P)A2 from (P)A3

Affirmed:

Commercial paper rating of P-2

Issuer: LG&E and KU Energy LLC

Outlook revised to stable from RUR-UP

Confirmed:

LT Issuer Rating: Baa2

Senior unsecured: Baa2

Senior unsecured Self: (P)Baa2

Issuer: Louisville Gas & Electric Company

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to A3 from Baa1

Senior unsecured to A3 from Baa1

Senior secured to A1 from A2

Senior secured Shelf to (P)A1 from (P)A2

Affirmed:

Commercial Paper ratings: P-2

Issuer: Kentucky Utilities Co.

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to A3 from Baa1

Senior unsecured to A3 from Baa1

Senior secured to A1 from A2

Senior secured Shelf to (P)A1 from (P)A2

Affirmed:

Commercial Paper rating: P-2

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PPL Corp.

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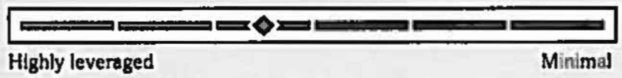
Summary:
PPL Corp.

Corporate Credit Rating	BBB/Stable/NR

Profile Assessments

BUSINESS RISK	STRONG

FINANCIAL RISK	SIGNIFICANT



Initial Analytical Outcome ("Anchor") And Rating Result

Our 'BBB' issuer credit rating (ICR) on PPL Corp. (PPL) is derived from:

- Our anchor of 'bbb', based on our "strong" business risk and "significant" financial risk profile assessments for the company.
- Modifiers that have no impact on the rating outcome.
- The stand-alone credit profile (SACP) of 'bbb' for PPL, reflecting its business risk and financial risk profiles, with no impact from modifiers.

Our 'BBB' rating on PPL is the same as the company's SACP. Group rating methodology applies to PPL and, as the parent company, has an ICR the same as its SACP and reflects the group credit profile (GCP) of 'bbb'.

Rationale

Business Risk: Strong	Financial Risk: Significant
• Sole provider in its service territories of essential and regulated services, mostly electricity and some natural gas distribution • Steady operating cash flow from regulated utilities • Unregulated operations that are materially riskier than regulated businesses • Low-cost coal and nuclear generation • Environmental rules continue to add costs to coal fleet • Operating diversity in merchant generation power plants • Efficient merchant electricity generating operation that produces competitively priced power, high levels of plant utilization, a low level of unforced outages, and high reliability • Rolling hedging strategy for merchant generation that stabilizes cash flow	• Aggressive strategy that includes acquisitions and use of hybrid securities • Aggressive financial policies • Cash flow erosion from lower power prices • Large capital expenditures • Discretionary cash flow to remain negative • Net cash flow to capital spending to remain less than 100% • Continuing commitment to credit quality and maintenance of balanced capital structure

Outlook: Stable

The stable rating outlook on PPL Corp. reflects our expectation that management will focus on its fully regulated utilities and will not increase unregulated operations beyond current levels. The outlook also reflects our expectations that cash flow protection and debt leverage measures will be appropriate for the rating. Specifically, our baseline forecast includes funds from operations (FFO) to total debt of between 14% and 15% and cash flow from operations (CFO) to debt of between 14% and 15%, consistent with our expectations for the 'BBB' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and limiting its unregulated operations to existing levels.

Downside scenario

We could lower the ratings if PPL cannot sustain consolidated financial measures of FFO to total debt above 13% or CFO to debt above 11%. This could occur if market power prices remain weak due to ongoing depressed demand or if the company does not maintain a balanced capital structure.

Upside scenario

Although unlikely over the medium term, we could raise the ratings if the business profile materially strengthens and if financial measures exceed our baseline forecast including FFO to total debt in excess of 20%.

Standard & Poor's Base-Case Scenario

Our base case scenario results in EBITDA growth, rising capital spending, and steady debt leverage.

Assumptions

- Economies in the company's service territories are improving, which will likely increase customer usage
- No material changes to PPL Energy Supply's hedging strategy
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics

	2014E	2015E	2016E
FFO/total debt (%)	13.3-14.8	14.0-15.2	14.0-15.2
Total debt/EBITDA (x)	4.3-5.1	4.3-5.1	4.3-5.1
CFO/total debt (%)	14.0-15.2	14.6-15.5	14.2-15.6

Note: Standard & Poor's adjusted figures. E--Estimate. FFO--funds from operations. CFO--Cash flow from operations.

Business Risk: Strong

We base our assessment on PPL's business risk profile on the company's "satisfactory" competitive position, "low" industry risk derived from the "very low" regulated utility industry and the "moderately high" unregulated power and gas industry, and the "very low" country risk of the U.S. and the U.K. where the company operates.

PPL's competitive position reflects geographical and operational diversity consisting of numerous utilities that serve 10 million electricity customers in the U.K., Pennsylvania, Kentucky, and Virginia, and 320,000 natural gas distribution customers in Kentucky. In addition, the company owns PPL Energy Supply LLC, an unregulated generation subsidiary that has about 10,500 megawatts of capacity consisting of well-located, low-cost nuclear and coal plants that are well hedged for the current year. With operations across two states and in the U.K., the company benefits significantly from country, geographical, and regulatory diversity, potentially minimizing the effect of economic conditions in one particular country or adverse regulatory decisions.

The customer base for the regulated utilities (both electric and gas) is primarily residential and commercial customers in terms of revenues as well as sales, which provide stable cash flows. The diversity in markets and regulation strengthens credit quality, but the cross-border regulatory jurisdictions require diligent monitoring of regulatory relationships. The U.K. wires-only distribution utilities have credit-supportive U.K. regulation and no commodity risk because nonaffiliated retail suppliers procure the electricity for retail customers. We expect these U.K. operations to contribute about 30% of PPL's consolidated cash flow. The stability of the U.K. cash flows, along with existing utility assets in Kentucky and Pennsylvania mostly offset the business risk profile of PPL Energy Supply's merchant generation, which we assess as satisfactory, resulting in the overall "strong" business risk profile. We expect the merchant generation business to contribute less than 25% of pro forma consolidated cash flows.

Financial Risk: Significant

Based on our medial volatility financial ratio benchmarks, our assessment of PPL's financial risk profile is "significant". This takes into consideration our expectations that financial measures will remain approximately at current levels based on our view of a mostly regulated utility strategy that will include continuous capital spending and timely cost recovery through various regulatory mechanisms. For the 12 months ended Dec. 31, 2013, FFO to debt was 15.6% and CFO to debt was about 15.5%. Debt to EBITDA was 4.6x. Our baseline forecast includes mostly steady financial measures such as FFO to debt ranging between 14% and 15% over the next three years and CFO to debt ranging between 14% and 16% over the same period. We forecast debt to EBITDA to range from roughly 4.3 to 5.1x. Capital spending and dividend payments translate to rising negative discretionary cash flow over the forecast period, requiring management to maintain vigilant cost recovery to maintain cash flow measures. The negative discretionary cash flow also points to external funding needs. We consider the company's financial policies to be aggressive, largely due to growth through acquisitions and the use of hybrid instruments.

Liquidity: Adequate

PPL has "adequate" liquidity, as our criteria define the term. The company's liquidity sources are likely to cover its uses by more than 1.1x in the next 12 months. We expect PPL to meet cash outflows even with a 10% decline in EBITDA.

There are sizeable debt maturities in the next three years, but we expect the company to refinance these given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of roughly $2.7 billion in 2014 • Common equity issuance of $977.5 million related to mandatory convertible securities • Credit facility availability of about $6 billion in 2014	• Debt maturities of about $300 million in 2014 • Capital spending of $3.9 billion in 2014 • Dividends of roughly $960 million in 2014

Other Modifiers

Modifiers have no impact on the rating outcome.

Group Influence

Standard & Poor's bases its 'BBB' ICR on PPL on the consolidated GCP of 'bbb' and application of our group ratings methodology. PPL, as the parent company, has a GCP that matches its 'bbb' SACP.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/--

Business risk: Strong

- Industry risk: Very low risk
- Country risk: Very low risk
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow leverage: Significant

Anchor: 'bbb'

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and Governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'bbb'

- Group credit profile: 'bbb'
- Entity status within group: Parent company

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For 1+ And 1 Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008

MOODY'S
INVESTORS SERVICE

Credit Opinion: PPL Corporation

Global Credit Research - 29 Apr 2014

Allentown, Pennsylvania, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Pref. Shelf	(P)Ba2
Western Power Distrib (East Midlands) Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2
Western Power Distrib (West Midlands) Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Western Power Distribution (South West) plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Commercial Paper -Dom Curr	P-2
Other Short Term	P-2
Western Power Distribution (South Wales) plc	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1

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Key Indicators

[1]PPL Corporation

	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
CFO pre-WC + Interest / Interest	4.3x	4.0x	3.9x	5.1x	4.5x
CFO pre-WC / Debt	16.0%	14.7%	14.8%	17.7%	18.8%
CFO pre-WC - Dividends / Debt	11.2%	10.8%	11.0%	13.7%	13.5%
Debt / Capitalization	56.0%	60.0%	57.2%	55.9%	54.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- 80% of cash flow from regulated operations

- Falling cash flows at unregulated operations

- Weak coverage ratios for the rating

Corporate Profile

PPL Corporation (PPL: Baa3 Issuer Rating, stable) is a utility holding company headquartered in Allentown, PA. It has four areas of operation: UK regulated, Kentucky regulated, Pennsylvania regulated and Supply. UK regulated is a pure wires business in the United Kingdom with no retail exposure. Kentucky regulated operates under a traditional integrated utility model. Pennsylvania regulated is comprised of a transmission business, mostly regulated by FERC, and a distribution operation regulated by the Pennsylvania Public Utility Commission. Supply is an unregulated generation business that owns generation assets primarily in Pennsylvania and Montana.

SUMMARY RATING RATIONALE

PPL's Baa3 rating reflects the low business risk of its regulated utilities, offset by substantial debt leverage at the parent holding company and the higher risk unregulated activities at Supply. The regulated business is characterized by supportive regulatory environments and a large capital expenditure program. The capital expenditure program results in substantial negative free cash flow at the operating utilities and depresses cash flow to debt metrics. PPL's credit metrics are weakly positioned for its ratings, with its three-year average consolidated CFO Pre-WC/debt at about 15% and RCF/debt at about 11%. Without a recovery of the US merchant power market, coupled with high capital expenditures at its regulated subsidiaries, PPL's credit metrics could come under more pressure, with CFO pre-WC/debt trending closer to 13% to 14% over the next three years. These credit metrics are at the low end of the Baa benchmarks outlined in our Regulated Electric and Gas Utility methodology, which has a range of 13% to 22% for CFO Pre-WC/Debt and 9% to 17% for RCF/debt. These benchmarks are specified for regulated utilities before the effects of structural subordination.

DETAILED RATING CONSIDERATIONS

- 80% of cash flow from regulated operations

At year-end 2013, PPL's regulated operations accounted for about 80% of the consolidated entity, as measured by EBITDA or book capitalization. Within the regulated operations, UK regulated accounts for 50% of the EBITDA, while Kentucky regulated and Pennsylvania regulated make up the balance, at 30% and 20% of the regulated EBITDA, respectively. We rate the UK utility operating subsidiaries at Baa1. The rating reflects its low business risk and strong operational performance offset by the challenges of a large capital expenditure program and pressure from the UK regulators to keep rates low. PPL's operating subsidiaries in Kentucky are rated A3, while its Pennsylvania Electric Utilities subsidiary is rated Baa1. Their ratings largely reflect supportive regulatory environments, offset by heavy capital expenditures, which are expected to run in the range of 3 to 4 times depreciation.

- Falling cash flow from unregulated activities

Due to the downturn in the merchant power markets in the US, PPL's unregulated cash flow has fallen significantly over the past few years. Supply recorded an adjusted CFO Pre-WC of $788 million for year-end 2013, down from $992 million in 2011. In calculating Supply's adjusted CFO Pre-WC, we excluded the effects of the cash contribution to the underfunded pension liabilities and the cash impact of the $697 million lease termination charge as it relates to the Colstrip leveraged lease transaction. PPL has also aggressively deleveraged Supply, with total debt on an adjusted basis falling to $2.8 billion at year-end 2013 from $4.2 billion in 2011. As a result, Supply's cash flow to debt metrics improved to 25% for year-end 2013, up from 23% in 2011, even as its cash flows declined over the same period.

- Weak credit metrics for the rating

PPL's credit metrics generally fall at the lower end of the Baa benchmarks under our Regulated Electric and Gas Utility methodology published in December 2013. At year-end 2013, PPL generated a three-year CFO pre-WC/debt ratio of about 16% and RCF/debt of about 11%. In comparison, the ranges for Baa regulated utilities under the methodology are 13% to 22% for CFO Pre-WC/debt and 9% to 17% for RCF/debt. We expect PPL's credit metrics to deteriorate somewhat over the next three years due to declining cash flows from unregulated activities and the effects of the large capital expenditure program at the regulated operations.

The weakness in PPL's credit metrics is even more pronounced when considering two factors specific to PPL: First, PPL has a large amount of debt ($4 billion) at the holding company that is structurally subordinated to subsidiary debts. Second, PPL has significant exposure to unregulated activities and we generally expect such companies to have more robust credit metrics to offset the higher business risk of these unregulated activities. Nevertheless, we believe that PPL's ratings are appropriate because they have, among other strengths mentioned previously, significant regulatory diversity and a strong management.

Liquidity Profile

At the end of 2013, PPL had about $1.1 billion of cash and unused committed credit facilities of about $4 billion in US dollars and £1 billion in British pounds. This level of liquidity is adequately sized for the demands of its operations, which include a significant level of negative free cash flow ($623 million for 2013) and a moderate amount of debt maturities, which include about $1 billion in 2014 and $1.3 billion in 2015.

Among its many credit facilities, the earliest to expire are a £300 million credit facility at WPD (East Midlands) and a £300 million credit facility at WPD (West Midlands). Both facilities expire in April 2016. The syndicated facilities in the UK contain financial covenants that require the utilities to maintain a 3x interest coverage ratio and total net debt not in excess of 85% of RAV. The facilities in the US contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL, PPL Electric, LKE, LG&E and KU.

Rating Outlook

The stable outlook incorporates continued strong performance of its regulated operations and limited additional downside expected from the merchant markets.

What Could Change the Rating - Up

While we do not foresee any particular event that would result in a negative rating action, the company's cash flow to debt credit metrics are expected to be weaker going forward due to the declining cash flow coming from its unregulated operations. As a result, the company has a smaller margin of error for a negative rating action.

Rating Factors

PPL Corporation

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current 12/31/2013		[3]Moody's 12-18 Month Forward ViewAs of April 2014	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa

Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.1x	Baa	3.5x-3.8x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	15.2%	Baa	13%-15%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	11.0%	Baa	9%-11%	Baa
d) Debt / Capitalization (3 Year Avg)	57.8%	Ba	55%-65%	Ba
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		-2		-2
a) Indicated Rating from Grid		Baa3		Baa3
b) Actual Rating Assigned		Baa3		Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2013; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

MOODY'S
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STANDARD
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Summary:
PPL Corp.

Corporate Credit Rating	BBB/Stable/NR

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable — Excellent
FINANCIAL RISK	AGGRESSIVE	Highly leveraged — Minimal

Rationale

Business Risk: Excellent

- Sole provider in its service territories of essential and regulated services, mostly electricity and some natural gas distribution
- Steady operating cash flow from regulated utilities
- Low-cost coal and nuclear generation
- Operating diversity in merchant generation power plants
- Rolling hedging strategy for merchant generation that stabilizes cash flow
- Exposure to environmental standards
- Unregulated operations that are materially riskier than regulated businesses
- Efficient merchant electricity generating operation that produces competitively priced power, high levels of plant utilization, a low level of unforced outages, and high reliability

Financial Risk: Aggressive

- Acquisitive strategy and aggressive use of hybrid securities
- Aggressive financial policies
- Cash flow erosion from lower power prices
- Large capital expenditures
- Discretionary cash flow to remain negative
- Net cash flow to capital spending to remain less than 100%
- Continuing commitment to credit quality and maintenance of balanced capital structure

Outlook: Stable

The stable rating outlook on PPL Corp. reflects our expectation that management will focus on its fully regulated utilities and will not increase unregulated operations beyond current levels. The outlook also reflects our expectations that cash flow protection and debt leverage measures will be appropriate for the rating. Specifically, our baseline forecast includes funds from operations (FFO) to total debt of about 16%, debt to EBITDA between 4x and 5x, and debt leverage to total capital of less than 60%, consistent with our expectations for the 'BBB' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and limiting its unregulated operations to existing levels.

Downside scenario

We could lower the ratings if PPL could not sustain consolidated financial measures of FFO to total debt of at least 12%, debt to EBITDA of less than 5x, and debt leverage of less than 62%. This could occur if market power prices remained weak due to ongoing depressed demand.

Upside scenario

Although unlikely over the medium term, we could raise the ratings if the business profile further strengthened and if financial measures exceeded our baseline forecast on a consistent basis, including FFO to total debt in excess of 20%, debt to EBITDA of less than 4x, and debt to total capital about 50%.

Standard & Poor's Base-Case Scenario

Our base case scenario results in EBITDA growth, rising capital spending, and steady debt leverage.

Assumptions

- Economic conditions in the company's service territories are improving, which will likely increase customer usage
- As required under the mandatory convertible securities issued to partly fund the acquisitions, equity issuances will occur in 2013 and 2014
- Successful issuance of common equity under high equity content hybrid securities and equal amount debt reduction with proceeds
- No material changes to PPL Energy Supply's hedging strategy
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics*

	2012A	2013E	2014E
FFO/Total debt	16.3%	15%-17%	15%-17%
Total debt/EBITDA	4.7x	4.3x-5.1x	4.4x-5.1x
Total debt/Total capital	61%	54%-57%	53%-56%

A--Actual. E--Estimate. *Standard & Poor's adjusted consolidated financial measures for PPL include adjustments to debt for operating leases ($387 mil.), pension-related items ($1.55 bil.), equity-like hybrids (negative $2.1 bil.), intermediate hybrids reported as debt (negative $250 mil.), and accrued interest not in reported debt ($325 mil.). EBITDA adjustments include operating leases ($35 mil.), pension-related items ($20 mil.), and share-based compensation expense ($49 mil.). FFO adjustments include operating leases ($83 mil.), equity-like hybrids ($95 mil.), pension-related items ($383 mil.), and capitalized interest (negative $53 mil.). We do not expect these adjustments, other than the equity-like hybrids, to change materially in 2013 and 2014.

Business Risk: Excellent

Our assessment of PPL's business risk profile as "excellent" reflects a mostly regulated public utility holding company strategy. PPL's numerous utilities serve 10 million electricity customers in the U.K., Pennsylvania, and Kentucky, and 320,000 natural gas distribution customers in Kentucky. In addition, the company owns PPL Energy Supply LLC, an unregulated generation subsidiary that has about 10,500 megawatts (MW) of capacity consisting of well-located, low-cost nuclear and coal plants that are well hedged through 2013.

With operations across two states and in the U.K., the company benefits significantly from country, geographical, and regulatory diversity, potentially minimizing the effect of economic conditions in one particular country or adverse regulatory decisions. The customer base for the regulated utilities (both electric and gas) is primarily residential and commercial customers in terms of revenues as well as sales, which provides stable cash flows. The diversity in markets and regulation strengthens credit quality, but the cross-border regulatory jurisdictions require diligent monitoring of regulatory relationships.

The U.K. wires-only distribution utilities have credit-supportive U.K. regulation and no commodity risk because nonaffiliated retail suppliers procure the electricity for retail customers. We expect these U.K. operations to contribute about 30% of PPL's consolidated cash flow. The stability of the U.K. cash flows, along with existing utility assets in Kentucky and Pennsylvania, all of which we assess as excellent, more than offset the business risk profile of PPL Energy Supply's merchant generation, which we assess as satisfactory, resulting in the excellent business profile overall. We expect the merchant generation business to contribute less than 25% of pro forma consolidated cash flows.

Financial Risk: Aggressive

We consider PPL's financial risk profile "aggressive" based on its adjusted consolidated financial measures, including FFO to total debt of 16.3%, debt to EBITDA of 4.7x, and debt to total capital of 61%, all for the 12 months ended Dec. 31, 2012, all in line with the rating. Also, we consider the company's financial policies to be aggressive, largely due to growth through acquisitions that PPL partly financed with high equity content hybrid securities. Capital spending and dividend payments translate to rising negative discretionary cash flow over the forecast period, requiring management to maintain vigilant cost recovery to maintain cash flow measures. The negative discretionary cash flow also points to external funding needs. Our base forecast of about 16% adjusted FFO to total debt, 4.7x debt to EBITDA, and about 55% total debt to total capital continues to reflect steady utility cash flows and completion of the convertible securities' equity issuances. Our rating on PPL reflects our view of a mostly regulated utility strategy that will include continuous capital spending and timely cost recovery through various regulatory mechanisms. We expect this to lead to steady cash flow measures and manageable debt leverage.

Liquidity: Adequate

PPL's liquidity position is "adequate" under our liquidity methodology. We expect that the company's liquidity sources over the next 12 months will exceed its uses by 1.2x. We do expect PPL, over the next few years, to externally fund a portion of its liquidity needs for debt maturities and capital spending.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of $475 million in 2013 • Assumed credit facility availability of about $4 billion in 2013 • FFO of roughly $2.9 billion in 2013	• Debt maturities of $737 million in 2013 • Capital spending of $4.2 billion in 2013 • Shareholder distributions of roughly $880 million in 2013

Covenants

PPL's credit agreements include a financial covenant requiring debt to total capitalization no greater than 65% for PPL Energy Supply and 70% for the U.S. utilities, PPL Electric Utilities Corp., Kentucky Utilities Co., and Louisville Gas & Electric Co. The U.K. utilities have a minimum EBITDA interest coverage of 3x and total net debt to regulated asset value of 85%. As of Dec. 31, 2012, the company was in compliance with the covenants. Headroom could erode somewhat if debt rises rapidly without adequate growth in equity during the capital spending phase.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Corporate Criteria: Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007
- Corporate Criteria: Standard & Poor's Methodology For Imputing Debt For U.S. Utilities' Power Purchase Agreements, May 7, 2007
- Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

STANDARD & POOR'S
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1347622 | 302175480

Summary:

PPL Corp.

Business Risk: STRONG

Vulnerable — Excellent

Financial Risk: SIGNIFICANT

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb	bbb	bbb

CORPORATE CREDIT RATING
BBB/Watch Pos/NR

Rationale

Business Risk: Strong	Financial Risk: Significant
• Expected improvement of business risk profile resulting from spin-off of unregulated power generation business, PPL Energy Supply LLC • Sole provider in its service territories of essential and regulated services, mostly electricity and some natural gas distribution • Regulated utility operations provide for stable cash flow generation • Environmental rules continue to add costs to coal fleet • Operating diversity in merchant generation power plants • Merchant generation business benefits from operating diversity, the consistent implementation of a rolling hedging strategy that contributes to cash flow stability, and efficient operations that lead to competitively priced power	• Aggressive financial policies and growth strategy that includes acquisitions and use of hybrid securities • Cash flow erosion from lower wholesale power prices • Large capital spending program • Discretionary cash flow remains negative • Net cash flow to capital spending remains less than 100% • Continuing commitment to credit quality and maintenance of balanced capital structure

Outlook:

Standard & Poor's Ratings Services' ratings on PPL Corp. are on CreditWatch with positive implications to reflect the potential for higher ratings on the company and its subsidiaries upon the successful spin-off of its merchant generation business. We expect the ratings to remain on CreditWatch until the transaction closes and we will provide periodic updates. Material changes to the projected financial measures in our base case and cash flow generation capability of the pro forma group could affect the ultimate financial risk profile assessment.

Upside scenario

Upon the close of the transaction, we could raise the issuer credit ratings (ICRs) and issue ratings on PPL Corp., LG&E and KU Energy LLC, Louisville Gas & Electric Co., Kentucky Utilities Co., and PPL Electric Utilities Corp. by up to two notches depending on the credit measures of the consolidated PPL group after the spin-off of the merchant business.

Standard & Poor's Base-Case Scenario

Our base case scenario results in EBITDA growth, accounting for rising capital spending, and steady debt leverage.

Assumptions

- Economies in the company's service territories are improving, which will likely increase customer usage
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics

	2014E	2015E	2016E
FFO/total debt (%)	13.5-15	13.5 – 15	13.5 – 15
Total debt/EBITDA (x)	4.7-5	4.7-5	4.7-5
CFO/total debt (%)	13.5-14.5	13.5-14.5	13.5-14.5

Note: Standard & Poor's adjusted figures. E--Estimate. FFO--Funds from operations. CFO--Cash flow from operations.

Business Risk: Strong

Subsequent to the spin-off of the merchant generation business, we expect that PPL's business risk profile will improve because it will consist of regulated utilities in the U.S. and U.K. where at least 50% of pro forma EBITDA would be from low-risk distribution and transmission operations. PPL's business risk profile would fall into the "excellent" range after the divestiture of the higher-risk unregulated generation assets. The "excellent" business risk assessment post divestiture accounts for PPL's focus on regulated utility operations where there is geographical and operating diversity with numerous utilities that serve more than 10 million electricity customers in the U.K., Pennsylvania, Kentucky, and Virginia, and 320,000 natural gas distribution customers in Kentucky. Residential and commercial customers contribute the majority of revenue and sales, providing a measure of stability and predictability to cash flow generation. With operations across two states and in the U.K., the company benefits significantly from country, geographical, and regulatory diversity, potentially minimizing the effect of economic conditions in one particular region or adverse regulatory decisions. The diversity in markets and regulation strengthens credit quality, but the cross-border regulatory jurisdictions require diligent monitoring of regulatory relationships. The customer base for the regulated utilities (both electric and gas) is primarily residential and commercial customers in terms of revenues as well as sales, which can contribute to cash flow stability. The U.K. wires-only distribution utilities benefit from credit-supportive U.K. regulation and no commodity risk because nonaffiliated retail suppliers procure the electricity for retail customers.

Financial Risk: Significant

Based on our medial volatility financial ratio benchmarks, we expect to assess PPL's financial risk profile as "significant", with projected credit protection measures being mostly near the lower end of the category. Under our baseline forecast, we expect that funds from operations (FFO) to debt will range from 13.5% and 15% over the next three years and cash flow from operations to debt to range between 13.5% and 14.5% over the same period. We forecast debt to EBITDA to range between 4.7x and 5x. The annual dividend payout ratio is forecast to be 55% over the 2015-2017 period. This level should bolster equity capital through retained earnings, helping to support the balance sheet, even as PPL makes capital investments, especially given our expectation that discretionary cash flow will continue to be negative in light of PPL's large capital spending program.

Liquidity: Adequate

PPL has "adequate" liquidity, as our criteria define the term. The company's liquidity sources are likely to cover its uses by more than 1.1x for the next 12 months. We expect PPL to meet cash outflows even with a 10% decline in EBITDA.

There are sizeable debt maturities within the next three years, but we expect the company to refinance them given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of roughly $2.7 billion in 2014 • Common equity issuance of $977.5 million related to mandatory convertible securities • Credit facility availability of about $6 billion in 2014	• Debt maturities of about $300 million in 2014 • Capital spending of $3.9 billion in 2014 • Dividends of roughly $960 million in 2014

Other Modifiers

Modifiers have no impact on the rating outcome.

Group Influence

Standard & Poor's bases its ICR on PPL on the consolidated group credit profile (GCP) and application of our group ratings methodology. PPL, as the parent company, currently has an ICR equal to the 'bbb' GCP, which we will reassess as part of the CreditWatch resolution. Under our group rating methodology, we consider all of PPL's U.S. regulated utilities and their intermediate holding companies core subsidiaries of the PPL group because we believe the utilities are integral to PPL's long-term strategy. The ICRs on these subsidiaries are therefore most likely to remain aligned with the GCP established for PPL.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Watch Pos/NR

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
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- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For 1+ And 1 Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
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- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

FitchRatings

Fitch Takes Various Actions on U.S. Corporate Finance Subsidiary IDRs

Ratings Endorsement Policy
10 Oct 2014 2:56 PM (EDT)

Fitch Ratings-Chicago-10 October 2014: Fitch Ratings has affirmed and withdrawn the Issuer Default Ratings (IDRs) of the following list of corporate finance subsidiaries with the exception of Wisconsin Energy Capital Corp. and Covidien International Finance S.A., which remained on Rating Watch Negative and were withdrawn. This action applies to corporate finance subsidiaries that have no assets or operations and rely wholly on a parent entity guarantee for support. The IDR ratings are withdrawn as they are no longer considered analytically meaningful. This action has no effect on any of the existing issue ratings at these finance subsidiaries.

Summary of actions:

Fitch Ratings has withdrawn the following ratings:

Wisconsin Energy Capital Corp.
--Long-term IDR 'A-'
Primary Analyst: Philippe Beard, Director, +1-212-908-0242
Secondary Analyst: Glen Grabelsky, Managing Director, +1-212-908-0577

Covidien International Finance S.A.
--Long-term IDR 'A'
--Short-term IDR 'F1'
Primary Analyst: Bob Kirby, Director, +1-312-368-3147
Secondary Analyst: Megan Neuburger, Senior Director, +1-212-908-0601

Fitch Ratings has affirmed and withdrawn the following ratings:

Qwest Capital Funding
--Long-term IDR 'BB+'
--Outlook Stable
Primary Analyst: John Culver, Senior Director, +1-312-368-3216
Secondary Analyst: Dave Peterson, Senior Director, +1-312-368-3177

Sprint Capital Corporation
--Long-term IDR 'B+'
--Outlook Stable
Primary Analyst: Bill Densmore, Senior Director, +1-312-368-3125
Secondary Analyst: Dave Peterson, Senior Director, +1-312-368-3177

Southern Company Funding Corp.
--Short-term IDR 'F1'
Primary Analyst: Shalini Mahajan, Senior Director, +1-212-908-0351
Secondary Analyst: Julie Jiang, Director, +1-212-908-0708

AGL Capital Corp
--Long-term IDR 'BBB+'
--Outlook Stable
--Short-term IDR 'F2'
Primary Analyst: Julie Jiang, Director, +1-212-908-0708
Secondary Analyst: Shalini Mahajan, Senior Director, +1-212-908-0351

PPL Capital Funding Inc.

--Long-term IDR 'BBB'
--Outlook Stable
--Short-term IDR 'F2'
Primary Analyst: Julie Jiang, Director, +1-212-908-0708
Secondary Analyst: Rob Hornick, Senior Director, +1-212-908-0523

ConocoPhillips Canada Funding Company I
--Long-term IDR 'A'
--Outlook Stable
ConocoPhillips Canada Funding Company II
--Long-term IDR 'A'
--Outlook Stable
Primary Analyst: Mark Sadeghian, Senior Director, +1-312-368-2090
Secondary Analyst: Sean Sexton, Managing Director, +1-312-368-3130

Dow Capital B.V.
--Long-term IDR 'BBB'
--Outlook Stable
Primary Analyst: Monica Bonar, Senior Director, +1-212-908-0579
Secondary Analyst: Sean Sexton, Managing Director, +1-312-368-3130

Teva Capital Services Switzerland GmbH
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Finance Services B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Finance Services II B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance LLC
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance II LLC
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance IV LLC
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance II B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance III B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance IV B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical Finance V B.V.
--Long-term IDR 'BBB+'
--Outlook Stable
Teva Pharmaceutical USA, Inc.
--Long-term IDR 'BBB+'
--Outlook Stable
Primary Analyst: Jacob Bostwick, Director, +1-312-368-3169
Secondary Analyst: Mike Zbinovec, Senior Director, +1-312-368-3164

Actavis Capital S.a.r.l.

--Long-term IDR 'BBB-'
--Outlook Stable
Actavis Funding SCS
--Long-term IDR 'BBB-'
--Outlook Stable
Actavis WC 2 s.a.r.l
--Long-term IDR 'BBB-'
--Outlook Stable
Warner Chilcott Corporation
--Long-term IDR 'BBB-'
--Outlook Stable
Warner Chilcott Company LLC
--Long-term IDR 'BBB-'
--Outlook Stable
Warner Chilcott Finance LLC
--Long-term IDR 'BBB-'
--Outlook Stable
Primary Analyst: Jacob Bostwick, Director, +1-312-368-3169
Secondary Analyst: Mike Zbinovec, Senior Director, +1-312-368-3164

AIMCO/Bethesda Holdings, Inc.
--Long-term IDR 'BB+'
--Outlook Positive
Primary Analyst: Stephen Boyd, Director, +1-212-908-9153
Secondary Analyst: Britton Costa, Director, +1-212-908-0524

Digital Stout Holding, LLC
--Long-term IDR 'BBB'
--Outlook Stable
Primary Analyst: Sean Pattap, Senior Director, +1-212-908-0642
Secondary Analyst: Steven Marks, Managing Director, +1-212-908-9161

Kimco North Trust III
--Long-term IDR 'BBB+'
--Outlook Stable
KRC Lending S.A. de C.V. SOFOM ENR
--Long-term IDR 'BBB+'
--Outlook Stable
Primary Analyst: Britton Costa, Director, +1-212-908-0524
Secondary Analyst: Stephen Boyd, Director, +1-212-908-9153

Peninsula Gaming Corp
--Long-term IDR 'B'
--Outlook Stable
Primary Analyst: Alex Bumzahny, Director, +1-212-908-9179
Secondary Analyst: Mike Paladino, Senior Director, +1-212-908-9113

Wyndham Global Finance PLC
--Short-term IDR 'F3'
Primary Analyst: Stephen Boyd, Director, +1-212-908-9153
Secondary Analyst: Tim Lee, Associate Director, +1-515-215-3741

Avon Capital Corp
--Short-term IDR 'B'
Primary Analyst: Grace Barnett, Director, +1-212-908-0718
Secondary Analyst: Judi Rossetti, Senior Director, +1-312-368-2077

H.J. Heinz Finance Company
--Long-term IDR 'BB-'
--Outlook Stable
H.J. Heinz Finance UK Plc

--Long-term IDR 'BB-'
Outlook Stable
Primary Analyst: Judi Rossetti, Senior Director, +1-312-368-2077
Secondary Analyst: Grace Barnett, Director, +1-212-908-0718

Bunge N.A. Finance L.P.
--Long-term IDR 'BBB'
--Outlook Stable
Primary Analyst: Judi Rossetti, Senior Director, +1-312-368-2077
Secondary Analyst: Chris Collins, Director, +1-312-368-3196

Molson Coors Capital Finance ULC
--Long-term IDR 'BBB'
--Outlook Stable
Molson Coors European Finance Company
--Long-term IDR 'BBB'
--Outlook Stable
Molson Coors International LP
--Long-term IDR 'BBB'
--Outlook Stable
Primary Analyst: Bill Densmore, Senior Director, +1-312-368-3125
Secondary Analyst: Wesley Moultrie, Managing Director, +1-312-368-3186

Williams Partners Finance Corp
--Long-term IDR 'BBB'
--Outlook Stable
Primary Analyst: Ralph Pellecchia, Senior Director, +1-212-908-0586
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Applicable Criteria and Related Research:
-- 'Corporate Rating Methodology', dated 28 May 2014

Additional Disclosure
Solicitation Status

DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

FitchRatings

Fitch Withdraws PPL and its U.S. Subsidiaries' Ratings

Ratings Endorsement Policy

09 Jan 2015 3:47 PM (EST)

Fitch Ratings-New York-09 January 2015: Fitch Ratings withdraws the ratings of PPL Corporation and its U.S. subsidiaries for business reasons. A complete list of ratings follows this press release.

For further information, please refer to the Fitch's press release 'Fitch Upgrades PPL Electric to 'BBB+'; PPL Corp's Outlook to Positive; Plans to Withdraw Ratings' dated Dec. 10, 2014.

Fitch withdraws the following ratings:

PPL Corporation
--Long-term Issuer Default Rating (IDR) at 'BBB';
--Short-term IDR at 'F2';
--Rating Outlook Positive.

PPL Capital Funding Inc.
--Senior unsecured debt at 'BBB';
--Junior subordinated notes at 'BB+';
--Rating Outlook Positive.

PPL Electric Utilities Corp.
--Long-term IDR 'BBB+';
--Secured debt at 'A';
--Short-term IDR at 'F2';
--Commercial paper at 'F2';
--Rating Outlook Stable.

LG&E and KU Energy LLC
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Short-term IDR at 'F2';
--Rating Outlook Stable.

Kentucky Utilities Company
--Long-term IDR at 'A-';
--Secured debt at 'A+';
--Secured pollution control bonds at 'A+/F2';
--Senior unsecured debt at 'A';
--Short-term IDR at 'F2';
--Commercial paper at 'F2';
--Rating Outlook Stable.

Louisville Gas and Electric Company
--Long-term IDR at 'A-';
--Secured debt 'A+';
--Secured pollution control bonds at 'A+/F2';
--Senior unsecured debt at 'A';
--Short-term IDR at 'F2';
--Commercial paper at 'F2';
--Rating Outlook Stable.

PPL Energy Supply, LLC.
--Long-term IDR at 'BB';
--Senior unsecured debt at 'BB';
--Short-term IDR at 'B';

--Commercial paper at 'B';
--Rating Watch Negative.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 18, 2014);
--'Parent and Subsidiary Rating Linkage' (Aug. 5, 2013);
--'Rating U.S. Utilities, Power and Gas Companies' (March 11, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
Recovery Ratings and Notching Criteria for Utilities
Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure
Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)

Additional Disclosure
Solicitation Status