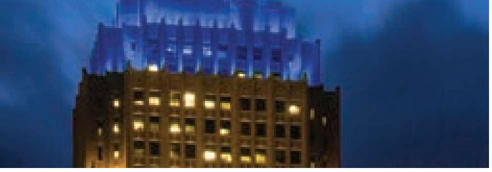
PPL CORPORATION
ANNUAL REPORT 2015

Poised for growth. Investing in tomorrow.



PPL CORPORATION AT A GLANCE

Headquarters: Allentown, Pa.

$7.7 billion in annual revenue

Total assets of $39 billion

Market capitalization of $23 billion

Seven regulated utility companies

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

About 8,000 megawatts of generation capacity

13,000 full-time employees

Approximately 200,000 miles of electric lines

144 billion kilowatt-hours of electricity delivered

Recipient of multiple customer satisfaction honors

As of Dec. 31, 2015

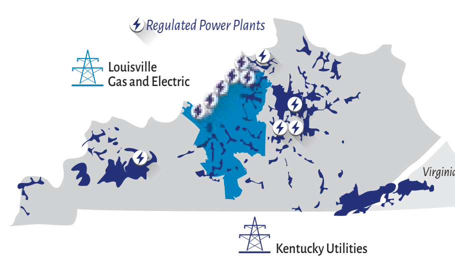
MAJOR BUSINESS SEGMENTS — KEY INFORMATION

U.K. Regulated

PPL's U.K. segment consists of the regulated electricity distribution operations of Western Power Distribution, which serves 7.8 million customers in central and southwest England and south Wales.

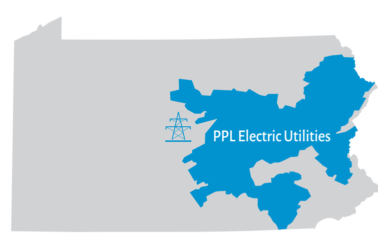
Kentucky Regulated

PPL's Kentucky segment consists primarily of the regulated electricity and natural gas operations of Louisville Gas and Electric Company and Kentucky Utilities Company, which serve 1.3 million customers in Kentucky, Virginia and Tennessee, and operate about 8,000 megawatts of regulated generating capacity.



Pennsylvania Regulated

PPL's Pennsylvania Regulated segment consists of the regulated electricity delivery operations of PPL Electric Utilities Corporation, which serves 1.4 million customers in eastern and central Pennsylvania.



> In every way, 2015 was about strengthening PPL's foundation for long-term growth and success.

DEAR SHAREOWNERS,

Without a doubt, 2015 was a remarkable year for our company.

PPL once again delivered strong results for you and for the 10 million customers who count on us each day to power their lives. We did so while holding true to the values that have made us successful for nearly a century.

Our total shareowner return of more than 6 percent was second to none among large-cap utilities and among the best overall in our sector.

We increased our dividend for the 13th time in 14 years, grew per-share ongoing earnings by 9 percent, successfully delivered more than $3.5 billion in infrastructure improvements, strengthened reliability for our customers and continued to deliver award-winning customer service.

We accomplished all this while completing the most significant transaction in our company's history – the June spinoff of our competitive generation business. That move capped PPL's strategic transformation into one of the nation's largest purely regulated utility companies.

In every way, 2015 was about strengthening PPL's foundation for long-term growth and success. And it was dedicated to investing in the future – for you, for our customers and for the communities where we do business.

Looking forward, we intend to build on this foundation for sustainable growth by:

Investing in tomorrow's energy infrastructure

Just as we've invested heavily in efforts to modernize the grid in recent years, we will continue to invest in tomorrow's energy infrastructure. Over the next five years alone, we plan to spend more than $16 billion on infrastructure improvements, much of that dedicated to developing a more reliable, resilient and efficient grid.

Throughout the areas we serve, we're replacing aging infrastructure with newer, stronger and better protected equipment to prevent outages. We're expanding transmission to reinforce the grid and deliver cost savings to energy users. In Pennsylvania, we're incorporating new sensors, automation and technology that allow us to quickly restore power to many customers before we even dispatch crews to trouble spots.

And in the United Kingdom, we're testing innovative ways to enable the widespread adoption of low-carbon, distributed generation in ways that are compatible with delivery networks. Our many projects include partnering with a solar company to develop one of the first industrial-scale battery storage facilities connected to solar and the grid.

Strengthening the diversity of our generation fleet

In Kentucky, we're taking steps to increase the diversity of our regulated generation portfolio and to continue to make environmental improvements to existing coal-fired power plants.

In 2015, we successfully brought on line a new, cleaner-burning, combined-cycle natural gas plant and completed the retirement of about 800 megawatts of coal-fired generation.

Today, we are also building the state's largest solar generating facility and exploring additional ways to provide utility customers with more renewable energy. In addition, we're laying the groundwork for a multi-year effort to cap and close remaining ash ponds at coal-fired facilities.

Driving continuous improvement and exceeding customer expectations

The key to our continued success is delivering power and natural gas safely, reliably and affordably.

We have built an outstanding reputation for customer service and satisfaction at our utilities. Our four Western Power Distribution utilities remain the top four performers for customer service in the U.K., while our combined U.S. utility operations have received numerous awards for customer satisfaction.

We consider this a great foundation upon which to build a strong future.

Our long-term goal is to be among the best performers in the areas that matter most – safety, reliability, customer satisfaction and responsiveness. And we aim to do that while maintaining competitive rates and investing in our systems and people.

Creating long-term shareholder value

We believe this drive and determination to continuously improve, coupled with fiscal discipline and strategic investments, will create long-term value for you, our shareowners.

Moreover, as we move forward as a purely regulated utility business, our focus has never been clearer. We're led by a strong, experienced, diverse and independent board, and we're powered by a workforce that is driven to provide outstanding results for our customers and shareowners.

Last but not least, we have a proven track record of delivering on our commitments – to our customers and our shareowners. In short, we are well-positioned to deliver strong earnings growth, a competitive dividend, and long-term value.

Today, I am absolutely convinced that our best days are ahead, and I am thankful for the confidence and trust you've placed in the people of PPL.

Sincerely,

Bill

William H. Spence
Chairman, President and Chief Executive Officer

FINANCIAL HIGHLIGHTS

For the years ended Dec. 31

FINANCIAL	2015	2014
Operating revenues (millions)	**$7,669**	$7,852
Net income (millions) (a)	**$682**	$1,737
Earnings from ongoing operations (millions) (b)	**$1,489**	$1,349
Total assets (millions) (c)	**$39,301**	$48,606
Earnings per share - Diluted (a)	**$1.01**	$2.61
Earnings from ongoing operations per share - Diluted (b)	**$2.21**	$2.03
Dividends declared per share	**$1.50**	$1.49
Book value per share (c,d,e)	**$14.72**	$20.47
Market price per share (c)	**$34.13**	$36.33
Dividend yield	**4.4%**	4.1%
Dividend payout ratio (a,f)	**149%**	57%
Dividend payout ratio - earnings from ongoing operations (f,g)	**68%**	73%
Market price/book value ratio (c)	**232%**	178%
Price/earnings ratio (a,f)	**33.8**	13.9
Price/earnings ratio - earnings from ongoing operations (f,g)	**15.4**	17.9
Return on common equity (a)(e)	**5.8%**	13.0%
Return on common equity - earnings from ongoing operations (g,h)	**15.2%**	15.5%

OPERATING - DOMESTIC ELECTRICITY SALES (GWh)		
Retail delivered	**67,798**	68,569
Retail supplied	**30,814**	31,543
Wholesale supplied	**2,241**	2,365

OPERATING - INTERNATIONAL ELECTRICITY SALES (GWh)		
United Kingdom	**75,907**	75,813

(a) 2015 includes the impact of the $879 million loss on the spinoff of the Supply segment, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with U.S. generally accepted accounting principles (GAAP). 2015 also includes five months of Supply segment earnings, compared to twelve months in 2014.

(b) Management utilizes "Earnings from ongoing operations" as a non-GAAP financial measure and it should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL believes that earnings from ongoing operations is useful and meaningful to investors because it provides management's view of PPL's fundamental earnings performance as another criterion in making investment decisions. PPL's management also uses earnings from ongoing operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance. Earnings from ongoing operations is adjusted for the impact of special items, which include the Supply segment's earnings now reflected in discontinued operations. Also included in special items in 2015 is the loss on spinoff, reflecting the fair value of the Supply segment being less than PPL's recorded value as of the June 1, 2015 spinoff. Earnings from ongoing operations for 2014 was adjusted to reflect the impact of spinoff dissynergies that, if not mitigated, would remain with PPL after completion of the spinoff. See "Reconciliation of Net Income to Earnings from Ongoing Operations" on page V of this report.

(c) End of period.

(d) Based on 673,857 and 665,849 shares of common stock outstanding (in thousands) at December 31, 2015 and December 31, 2014.

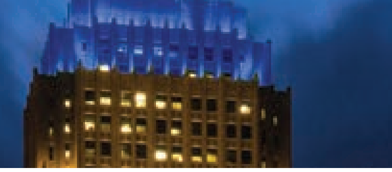
(e) 2015 reflects the impact of the spinoff of the Supply segment and a $3.2 billion related dividend.

(f) Based on diluted earnings per share.

(g) Calculated using earnings from ongoing operations, as described above in footnote (b).

(h) Adjusted to exclude the equity of PPL Energy Supply, LLC, as that business was spun off in 2015.

DIVIDENDS & TOTAL RETURN



Dividends paid on PPL common stock are an important part of "total shareowner return," which we define as common stock price appreciation plus reinvested dividends.

PPL has paid cash dividends on its stock in every quarter since 1946. In February 2016, the company increased the dividend for the 14th time in 15 years. On a percentage basis, the dividend has increased by 187 percent in that period.

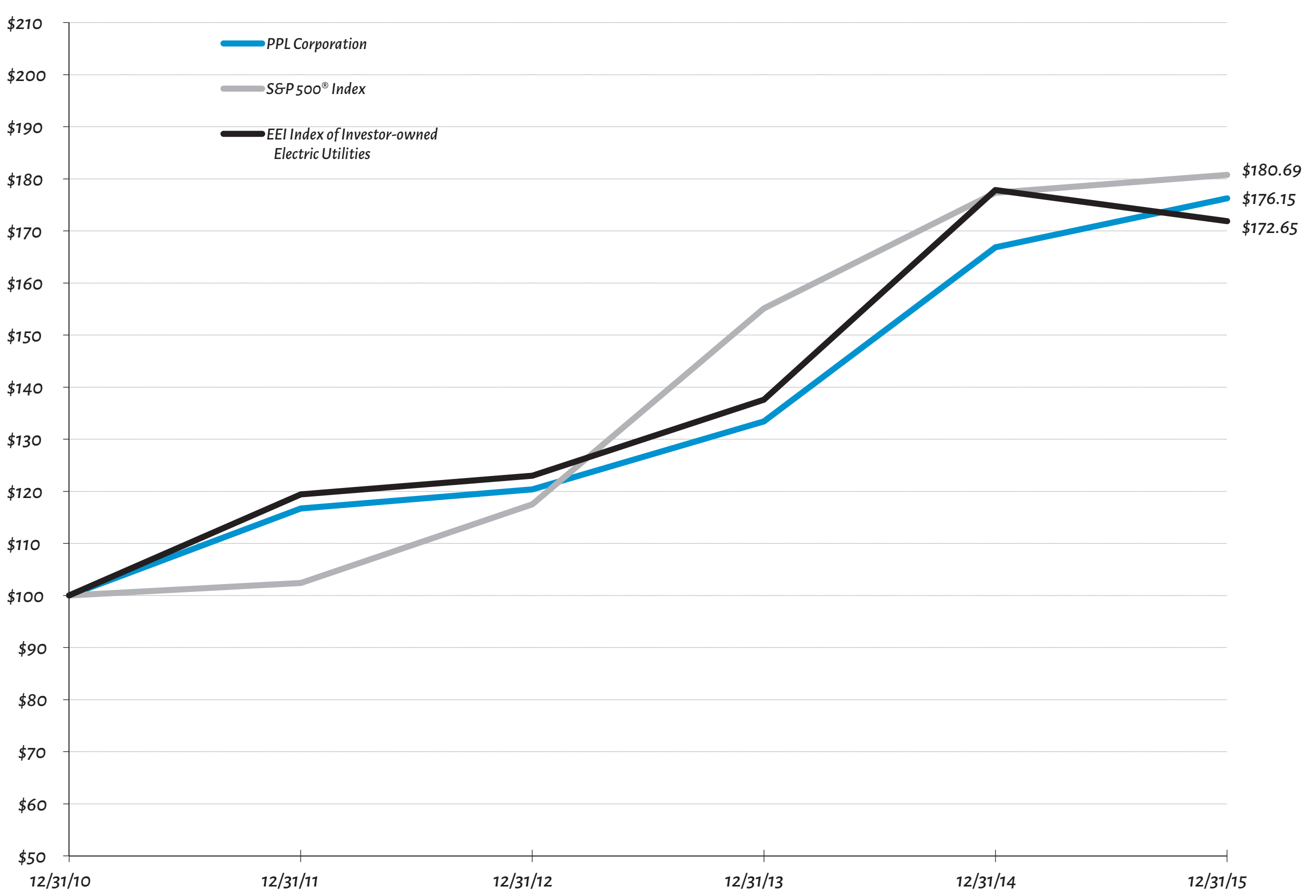
The company's intent is to grow the dividend modestly this year, as supported by our first-quarter dividend increase. We would expect to grow the dividend more in line with our earnings per share growth targets beginning in 2017.

Dividend increases reflect continued confidence in the strength of PPL's business portfolio and prospects for future growth. PPL's high-performing regulated utility businesses provide a high level of stability to our earnings forecasts, dividend and credit ratings.

Comparison of 5-Year Cumulative Total Return

For PPL Corporation, S&P 500® Index and EEI Index of Investor-owned Electric Utilities*

Value of Investment ($)



** Assumes investing $100 on December 31, 2010, and reinvesting dividends in PPL common stock, S&P 500® Index and EEI Index of Investor-owned Electric Utilities. Cash equivalent dividend of $2.505, related to the spin of the Supply business, is assumed reinvested on June 2, 2015, for PPL's TSR calculation.*

FINANCIAL TABLE OF CONTENTS

Form 10-K for the year ended Dec. 31, 2015, was filed by PPL Corporation with the U.S. Securities and Exchange Commission on Feb. 19, 2016. Please visit PPL Corporation's website, www.pplweb.com/investors, for the full text.

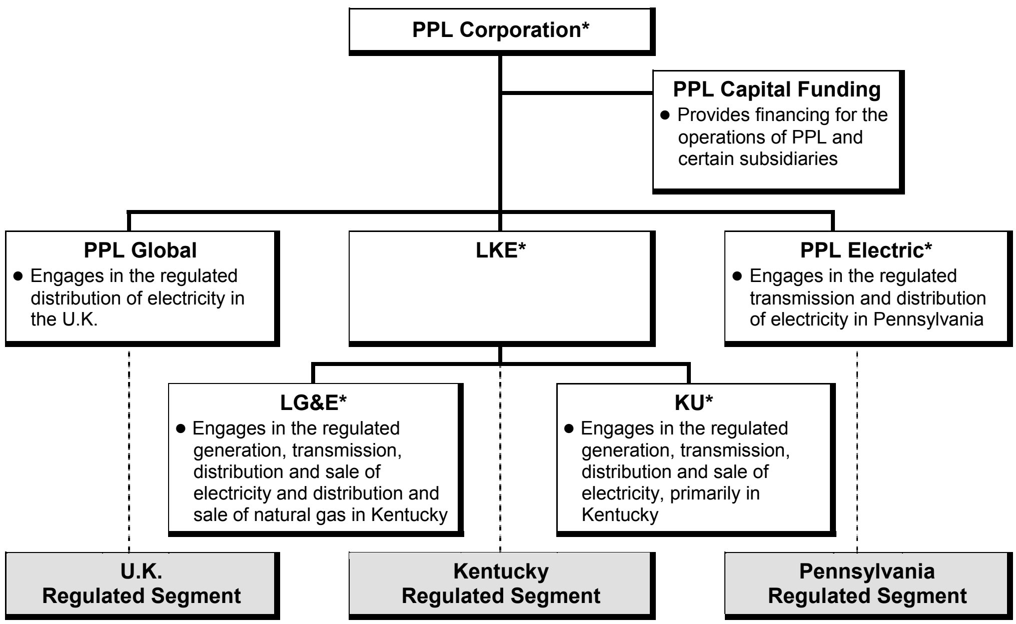
BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company that was incorporated in 1994. 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 "Spinoff of PPL Energy Supply" below for more information.

PPL's principal subsidiaries at December 31, 2015 are shown below (* denotes a Registrant).



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

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

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

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

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, 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. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

(PPL)

Spinoff of PPL Energy Supply

In recognition of the changes in recent years in the wholesale power markets, PPL performed an in-depth analysis of its business mix to determine the best available opportunities to maximize the value to shareowners of its competitive generation business. As a result, 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's shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in, control of, or affiliation with Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

See Note 8 to the Financial Statements for additional information.

Acquisitions

On April 1, 2011, PPL, through an indirect, wholly owned subsidiary, PPL WEM Limited, acquired all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently defined herein as WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands operates two regulated distribution networks in the Midlands area of England and is included in the U.K. Regulated segment.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related Subsidiary Registrants. PPL's other reportable segments primarily reflect the activities 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. As a result of the June 1, 2015 spinoff of PPL Energy Supply, PPL no longer has a Supply segment.

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

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2015:			
Operating Revenues (in billions)	$ 2.4	$ 3.1	$ 2.1
Net Income (in millions)	$ 1,121	$ 326	$ 252
Electricity delivered (GWh)	75,907	30,814	36,984
At December 31, 2015:			
Regulatory Asset Base (in billions) (a)	$ 9.7	$ 8.7	$ 5.2
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.8	1.3	1.4

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

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

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

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

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

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

WPD, through indirect wholly owned subsidiaries, operates four of the 15 regulated distribution networks providing electricity service in the U.K. The number of network customers (end-users) served by WPD totals 7.8 million across 21,600 square miles in south Wales and southwest and central England.

Revenues for the years ended December 31 are shown below.

	2015	2014	2013
Operating Revenues	$ 2,410	$ 2,621	$ 2,403

The majority of WPD's operating revenue is known as DUoS and is generated by providing regulated electricity distribution services to licensed third party energy suppliers who pay WPD for the use of WPD's distribution network to transfer electricity to the suppliers' customers, the end-users. Throughout the following discussion, the use of the term "customers" refers to the end-users of WPD's regulated distribution networks.

Franchise and Licenses

The operations of WPD's principal subsidiaries, WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands), are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. The Electricity Act 1989 provides the fundamental framework of electricity companies and established licenses that require each of the DNOs to develop, maintain and operate efficient distribution networks. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

WPD is authorized by Ofgem to provide electricity distribution services within its concession areas and service territories, subject to certain conditions and obligations. For instance, WPD is subject to Ofgem regulation with respect to the regulated revenue it can earn and the quality of service it must provide, and WPD can be fined or have its licenses revoked if it does not meet the mandated standard of service.

Ofgem has formal powers to propose modifications to each distribution license. In January 2014, Ofgem and WPD agreed to a reduction of £5 per residential end-user in the 2014/15 regulatory year to be recovered in the 2016/2017 regulatory year. See "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Distribution Revenue Reduction" for additional information. Ofgem has made license changes as part of the RIIO-ED1 process discussed below.

Competition

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

Revenue and Regulation

Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue, incentive adjustments, adjustments for over or under-recovery and adjustments related to the DPCR4 line loss close out.

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced on April 1, 2015. The RIIO framework is intended to:

- encourage DNOs to deliver safe, reliable and sustainable network service at long-term value to customers;
- enable DNOs to finance the required investment in a timely and efficient way;
- remunerate DNOs according to their delivery for customers;
- increase emphasis on outputs and incentives;
- enhance stakeholder engagement including network customers;
- provide a stronger incentive framework to encourage more efficient investment and innovation; and
- replace the current Low Carbon Network Fund to continue to stimulate innovation.

Additionally, from a financial perspective the RIIO framework:

- regulates revenues for the DNOs in real terms using 2012/2013 prices;
- inflates RAV (therefore allowed revenues) and other revenue components using the RPI since March 31, 2013;
- splits the recovery of Totex between immediate recovery (called "fast pot") and deferred recovery as an addition to the RAV (called "slow pot");
- provides DNOs with a pass-through for costs the DNOs have no control over (i.e., Ofgem fees, National Grid transmission charges, property taxes and corporate income taxes);
- extends the recovery period of depreciation of RAV additions after April 1, 2015 from a 20 year life as used under DPCR5 to 45 years, with a transitional arrangement that will gradually increase the asset life for new additions over the price control period resulting in an average life of approximately 35 years for RAV additions during RIIO-ED1. The RAV as of March 31, 2015 will continue to be depreciated over 20 years. The asset lives used to determine depreciation expense for U.S. GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues, and as such vary by asset type and are based on the expected useful lives of the assets;
- provides the DNOs the ability to be fast-tracked through the regulatory approval process, providing a fast-track incentive of 2.5% of Totex during the 8-year price control period for successful DNOs; and
- maintains an incentive scheme for DNOs to be rewarded or penalized for performance in the areas of reliability and customer satisfaction, but places a maximum cap on the amount of incentive revenues that can be earned by a DNO.

The key components of WPD's four RIIO-ED1 business plans accepted by Ofgem are:

- all four DNO business plans were accepted for fast-track status (fast-track incentive is worth approximately $43 million annually for WPD assuming a $1.60/£ foreign currency exchange rate);
- WPD received a higher level of cost savings retention, which was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs;
- a cost of debt recovery comprised of a 10-year trailing average debt allowance, to be adjusted annually, compared to a transition to a 20-year trailing average for the slow tracked DNOs applied to 65% of RAV;
- a return on regulatory equity (RORE) allowance with an equity ratio of 35% of RAV and a cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs;
- a Totex split of 80% slow pot and 20% fast pot;
- recovery of approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans; and
- incentive targets that are significantly more stringent than those set under DPCR5, thus reducing the expected incentive revenues WPD can earn in RIIO-ED1 compared to DPCR5.

WPD's combined business plans include funding for total expenditures of approximately $20.4 billion over the eight-year period (assuming a $1.60/£ foreign currency exchange rate), broken down as follows:

- Totex - $13.5 billion ($10.8 billion additions to RAV; $2.7 billion fast pot);

- Pension deficit funding - $2.0 billion;
- Cost of debt recovery - $1.6 billion;
- Property taxes, Ofgem fees and National Grid transmissions charges - $2.6 billion; and
- Corporate income taxes recovery - $700 million.

The U.K. regulatory structure is an incentive-based structure in contrast to the typical U.S. regulatory structure which operates on a cost-recovery model. The base demand revenue that a DNO can earn in each year of the current price control period is the sum of:

- a return on capital from RAV;
- a return of capital from RAV (i.e. depreciation);
- the fast pot recovery;
- pension deficit funding;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- certain pass-through costs over which the DNO has no control;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive);
- fast track incentive - as WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive discussed above;
- profiling adjustments - these adjustments do not affect the total base demand revenue in real terms over the eight-year price control period, but change the year in which the revenue is earned;
- adjustments from the Annual Iteration Process (AIP), discussed further below; and
- adjustments for inflation true-ups, discussed further below.

In addition to base demand revenue, WPD's allowed revenue primarily includes:

- an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets;
- adjustments for over- or under-recovery of allowed revenue; and
- a reduction in revenue related to the DPCR4 line loss close out.

During DPCR5, the prior price control review period, WPD's total base demand revenue for the five-year period was profiled in a manner that resulted in a weighted-average increase of about 5.5% per year for all four DNOs. In the first year of RIIO-ED1, base demand revenue decreased by about 11.8% primarily due to a change in the profiling approach and a lower weighted-average cost of capital. For each regulatory year thereafter for the remainder of RIIO-ED1, base demand revenue will increase by approximately 1% per annum before inflation.

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

Base Demand Revenue True-up Mechanisms

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

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set in 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment. The projected TRU for the 2015/16 regulatory year is a $45 million reduction to revenue and will reduce base demand revenue in calendar years 2017 and 2018 by $30 million and $15 million, respectively.

- Annual Iteration Process - The RIIO-ED1 price control period also includes an Annual Iteration Process (AIP). This will allow future base demand revenues agreed with the regulator as part of the price control review to be updated during the price control period for financial adjustments including tax, pensions and cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment. The MOD provided by Ofgem in November 2016 will include the TIM for the 2015/16 regulatory year as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This projected MOD of $11 million will reduce base demand revenue for calendar years 2017 and 2018 by $5 million and $6 million, respectively.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, under applicable GAAP, liabilities for these adjustments have not been recorded. PPL's projected earnings per share growth rate through 2017 includes both the estimated TRU for regulatory year 2015/16 and MOD.

Allowed Revenue Components
In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are discussed below.

Incentives - Ofgem has established incentive mechanisms to provide significant opportunities to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentive mechanisms which may affect allowed revenue include:

- Interruptions Incentive Scheme (IIS) - This incentive has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest and operate their networks to manage and reduce both the frequency and duration of power outages. The IIS target under RIIO-ED1 is divided into interruptions caused by planned and unplanned work. The target for planned work will be calculated as the annual average level of planned interruptions and minutes lost over a previous three year period. The target for unplanned interruptions for the first year of RIIO-ED1 is specified in the DNOs license and targets for both the CIs and CMLs become more demanding each year.

- In addition to the IIS, the broad measure of customer service is enhanced in RIIO-ED1. This broad measure encompasses:
  - customer satisfaction in supply interruptions, connections and general inquiries;
  - complaints;
  - stakeholder engagement; and
  - delivery of social obligations.

The following table shows the amount of incentive revenue, primarily from IIS, which WPD has earned during DPCR5:

Regulatory Year Ended	Incentive Earned (in millions)		Regulatory Year Ended Incentive Included in Revenue
March 2011	$	30	March 2013
March 2012		83	March 2014
March 2013		104	March 2015
March 2014		125	March 2016
March 2015		136	March 2017

Based on applicable GAAP, incentive revenues are not recorded as assets and are included in revenues when they are billed to customers.

DPCR4 Line Loss Adjustment
For regulatory years 2015/16 through 2018/19 allowed revenue will also be reduced to reflect Ofgem's final decision on the DPCR4 line loss incentives and penalties mechanism. WPD has a liability recorded related to this future revenue reduction and, therefore, this will not impact future earnings. See Note 6 to the Financial Statements for additional information.

Correction Factor
During the price control period, WPD's revenue is decoupled from volume and WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising from 2014/15 onwards and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment will occur in 2016/17. In 2016/17 under this mechanism, WPD will recover the £5 per residential network customer reduction given through reduced tariffs in 2014/15 (approximately $56 million) as that amount is currently considered an under-recovery.

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

Under applicable GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. K-factor is measured as of the end of the regulatory year, March 31. While WPD estimates over-recoveries and records a liability when it is probable that there will be an over-recovered position at the end of the regulatory-year, weather-related volume changes and other factors such as sales mix can affect the over or under-recovery between the end of PPL's calendar year and the end of the regulatory year.

Customers

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

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

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

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 403,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 322,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 518,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and fewer than ten customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 11 municipalities in Kentucky under load following contracts. In Virginia, KU operates under the name Old Dominion Power Company.

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

	2015		2014		2013	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	$ 816	26	$ 815	26	$ 770	26
Industrial	628	20	627	20	587	20
Residential	1,245	40	1,281	40	1,205	40
Retail - other	267	9	279	9	260	9
Wholesale - municipal	114	4	109	3	110	4
Wholesale - other (a)	45	1	57	2	44	1
Total	$ 3,115	100	$ 3,168	100	$ 2,976	100

	2015		2014		2013	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	$ 436	30	$ 433	28	$ 405	29
Industrial	199	14	194	13	186	13
Residential	633	44	650	43	614	44
Retail - other	117	8	130	8	119	8
Wholesale - other (a) (b)	59	4	126	8	86	6
Total	$ 1,444	100	$ 1,533	100	$ 1,410	100
KU						
Commercial	$ 380	22	$ 382	22	$ 365	22
Industrial	429	25	433	25	401	25
Residential	612	35	631	36	591	36
Retail - other	150	9	149	9	141	9
Wholesale - municipal	114	7	109	6	110	7
Wholesale - other (a) (b)	43	2	33	2	27	1
Total	$ 1,728	100	$ 1,737	100	$ 1,635	100

(a) Includes wholesale power and transmission revenues.
(b) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

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

Competition

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

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

Power Supply

At December 31, 2015, LKE owned, controlled or had a minority ownership interest in generating capacity (summer rating) of 7,997 MW, of which 2,919 MW related to LG&E and 5,078 MW related to KU, in Kentucky, Indiana, and Ohio.

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

During 2015, LKE's Kentucky power plants generated the following amounts of electricity.

	GWh		
Fuel Source	LKE	LG&E	KU
Coal (a)	29,609	12,049	17,560
Oil / Gas	4,792	1,258	3,534
Hydro	372	274	98
Total (b)	34,773	13,581	21,192

(a) Includes 762 GWh of power generated by and purchased from OVEC for LKE, 527 GWh for LG&E and 235 GWh for KU.
(b) This generation represents a 2.4% decrease for LKE, a 13.7% decrease for LG&E and a 6.6% increase for KU from 2014 output.

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

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

As a result of environmental requirements, KU retired two coal-fired units, with a combined summer capacity rating of 161 MW, at the Green River plant in September 2015. 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. KU retired a 71 MW coal-fired unit at the Tyrone plant in 2013.

Fuel Supply

Coal is expected to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. Due to Cane Run Unit 7 being placed into operation during 2015, natural gas will play a more significant role going forward. The natural gas for this generating unit is purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

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

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2022 and normally augment their coal supply agreements with spot market purchases, as needed.

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

To enhance the reliability of natural gas supply, LG&E and KU have secured, firm long-term pipeline capacity on the interstate pipeline serving Cane Run Unit 7 and six simple cycle combustion turbine units located at the Trimble County site through 2024. LG&E has also secured long-term firm pipeline capacity on an interstate pipeline for an additional simple cycle gas turbine under a power purchase agreement for the summer months through October 2018. For the seven simple cycle combustion turbines at Brown, no firm long-term pipeline capacity has been purchased due to the facility being interconnected to multiple pipelines and some of the units having dual fuel capability.

Natural gas purchases for these units currently take place as needed from pipelines but LG&E and KU may seek to augment these purchases with longer term agreements.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are typically at their highest. Several suppliers under contracts of varying duration provide competitively priced natural gas. At December 31, 2015, LG&E had 12 Bcf of natural gas stored underground with a carrying value of $42 million.

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

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2018 and 2021. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E has two contracts with a total capacity of 10,000 MMBtu/day, during the winter season and 28,000 MMBtu/day, during the summer season; both contracts have been terminated effective October 31, 2016. With this same pipeline, LG&E also has a new contract for pipeline capacity commencing June 2016 through October 31, 2026, in the amount of 60,000 MMBtu/day. Additionally, LG&E has a contract with the same pipeline for the month of January 2016 with a total capacity of 30,000 MMBtu/day. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires October 31, 2018.

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

(PPL, LKE, LG&E and KU)

<u>Transmission</u>

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

During 2013 through 2015, LG&E and KU have submitted various compliance filings to the FERC reflecting their participation with other utilities in the Southeastern Regional Transmission Planning group relating to certain FERC Order 1000 requirements. FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities. FERC approvals have been received for all but one remaining of such compliance filings.

<u>Rates</u>

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

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

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

KU's Tennessee base rates are established through approval of the TRA and generally will follow the cost of providing service in Kentucky.

KU's rates to 11 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets. 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.

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

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

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

(PPL and PPL Electric)

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

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

	2015		2014		2013	
	Revenue	**% of Revenue**	**Revenue**	**% of Revenue**	**Revenue**	**% of Revenue**
Distribution						
Residential	$ 1,338	63	$ 1,285	63	$ 1,215	65
Industrial	58	3	52	3	52	3
Commercial	377	18	367	18	363	19
Other (a)	(44)	(2)	5		(11)	
Transmission	395	18	335	16	251	13
Total	$ 2,124	100	$ 2,044	100	$ 1,870	100

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

Franchise, Licenses and Other Regulations

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

Competition

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

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

Rates and Regulation

Transmission

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

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

As a transmission owner, PPL Electric's transmission revenues are recovered through PJM in accordance with a FERC approved tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on a formula rate mechanism. As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

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

Distribution

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

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

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

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. In January 2013, PPL Electric filed a petition requesting permission to establish a DSIC. In May 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. In November 2015, the PUC issued an opinion and order approving PPL Electric's Petition with minor modifications.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129, Act 11 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. As of December 31, 2015, the following percentages of PPL Electric's customer load were provided by competitive suppliers: 50% of residential, 85% of small commercial and industrial and 99% of large commercial and industrial customers. The PUC continues to be interested in expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities - Act 129" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which includes 4 solicitations for electricity supply held in April and October, annually. Pursuant to this plan, PPL Electric contracts for all of the electricity supply for residential, small commercial and small industrial customers, large commercial and large industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential, small commercial and small industrial customers, and 12-month real-time pricing contracts for large commercial and large industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Since the cost of generation supply is a pass-through cost for PPL Electric, its financial results are not impacted if its customers purchase electricity supply from these alternative suppliers. See "Energy Purchase Commitments" in Note 13 to the Financial Statements for additional information regarding PPL Electric's solicitations.

See "Regulatory Matters - Pennsylvania Activities - Rate Case Proceedings" in Note 6 to the Financial Statements for information regarding PPL Electric's 2015 rate case proceedings.

- ***Other Corporate Functions*** *(PPL)*

PPL Services provides PPL subsidiaries with administrative, management and support services.

PPL EU Services, formed in 2015, is included within the Pennsylvania Regulated Segment and provides the majority of financial, supply chain, human resources and facilities management services to PPL Electric. Significant portions of the various corporate functions previously within PPL Services were transferred to PPL EU Services in 2015. Certain other functions are to be transferred to PPL EU Services as the transition services agreements with Talen Energy expire. PPL Services will continue to provide certain limited corporate functions. For both service companies, the costs of these services are charged directly to the respective recipients for the services provided or indirectly charged to applicable recipients based on an average of the recipients' relative invested capital, operation and maintenance expenses and number of employees.

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

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

SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2015	2014	2013	2012	2011 (c)
Income Items (in millions)					
Operating revenues	**$ 7,669**	$ 7,852	$ 7,263	$ 6,856	$ 6,329
Operating income	**2,831**	2,867	2,561	2,228	1,659
Income from continuing operations after income taxes attributable to PPL shareowners	**1,603**	1,437	1,368	1,114	683
Income (loss) from discontinued operations (net of income taxes) (h)	**(921)**	300	(238)	412	812
Net income attributable to PPL shareowners (h)	**682**	1,737	1,130	1,526	1,495
Balance Sheet Items (in millions)					
Total assets (d)(f)	**39,301**	48,606	45,889	43,509	42,536
Short-term debt (f)	**916**	836	701	296	178
Long-term debt (d)(f)	**19,048**	18,054	18,269	16,120	14,879
Noncontrolling interests				18	268
Common equity (f)	**9,919**	13,628	12,466	10,480	10,828
Total capitalization (f)	**29,883**	32,518	31,436	26,914	26,153
Financial Ratios					
Return on common equity - % (f)(h)	**5.8**	13.0	9.8	13.8	14.9
Ratio of earnings to fixed charges (e)	**2.8**	2.8	2.4	2.1	1.7
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	**673,857**	665,849	630,321	581,944	578,405
Weighted-average	**669,814**	653,504	608,983	580,276	550,395
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	**$ 2.38**	$ 2.19	$ 2.24	$ 1.91	$ 1.24
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	**$ 2.37**	$ 2.16	$ 2.12	$ 1.90	$ 1.23
Net income available to PPL common shareowners - Basic EPS	**$ 1.01**	$ 2.64	$ 1.85	$ 2.61	$ 2.71
Net income available to PPL common shareowners - Diluted EPS	**$ 1.01**	$ 2.61	$ 1.76	$ 2.60	$ 2.70
Dividends declared per share of common stock	**$ 1.50**	$ 1.49	$ 1.47	$ 1.44	$ 1.40
Book value per share (f)	**$ 14.72**	$ 20.47	$ 19.78	$ 18.01	$ 18.72
Market price per share	**$ 34.13**	$ 36.33	$ 30.09	$ 28.63	$ 29.42
Dividend payout ratio - % (g)(h)	**149**	57	84	55	52
Dividend yield - % (i)	**4.4**	4.1	4.9	5.0	4.8
Price earnings ratio (g)(h)(i)	**33.8**	13.9	17.1	11.0	10.9
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	**2,241**	2,365	2,383	2,304	3,550
Domestic - Electric energy delivered - retail	**67,798**	68,569	67,848	66,931	67,806
U.K. - Electric energy delivered	**75,907**	75,813	78,219	77,467	58,245

(a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2015, 2014 and 2013. The earnings were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for a discussion of discontinued operations in 2015, 2014 and 2013.
(b) See Notes 1, 6 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
(c) 2011 includes eight months of WPD Midlands activity following the April 1, 2011 acquisition, as PPL consolidates on a one-month lag.
(d) All years reflect the retrospective adoption of new accounting guidance related to the presentation of debt issuance costs and deferred taxes. See Note 1 to the Financial Statements for additional information.
(e) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest of on short and long-term debt, amortization of debt discount, expense and premium-net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries.
(f) 2015 reflects the impact of the spinoff of PPL Energy Supply and a $3.2 billion related dividend.
(g) Based on diluted EPS.
(h) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with the applicable accounting rules under GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014.
(i) Based on year-end market prices.

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

(All Registrants)

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

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

- "Overview" provides a description of each Registrant's business strategy, 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. "Non-GAAP Financial Measures", "Earnings from Ongoing Operations" and "Margins" provide explanations of non-GAAP measures used and reconciliations to the most directly comparable GAAP measure. "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing 2015 with 2014 and 2014 with 2013.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

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

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. On June 1, 2015, the spinoff was completed. See "Financial and Operational Developments - Other Financial and Operational Developments - Spinoff of PPL Energy Supply" below for additional information.

Business Strategy

(All Registrants)

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

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

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

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

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

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

(PPL)

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

Following the June 1, 2015 spinoff of PPL Energy Supply, PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly, PPL Energy Supply).

See "Business" above and "Financial and Operational Developments - Other Financial and Operational Developments - Cost of Spinoff" and "Loss on Spinoff" below for additional information.

Financial and Operational Developments

<u>Earnings</u> *(PPL)*

PPL's earnings by reportable segment were as follows:

	2015	2014	2013	$ Change 2015 vs. 2014	$ Change 2014 vs. 2013
U.K. Regulated	$ 1,121	$ 982	$ 922	$ 139	$ 60
Kentucky Regulated	326	312	307	14	5
Pennsylvania Regulated	252	263	209	(11)	54
Corporate and Other (a)	(96)	(120)	(68)	24	(52)
Discontinued Operations (b)	(921)	300	(240)	(1,221)	540
Net Income	$ 682	$ 1,737	$ 1,130	$ (1,055)	$ 607

(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 and 2014 include costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.
(b) As a result of the spinoff of PPL Energy Supply, substantially representing PPL's Supply segment, the earnings of the Supply segment are included in Discontinued Operations. 2015 includes an $879 million charge reflecting the difference between PPL's recorded value for the Supply segment and its estimated fair value as of the spinoff date, determined in accordance with the applicable accounting rules under GAAP. See Note 8 to the Financial Statements for additional information. 2013 excludes $2 million which has been classified as discontinued operations in the Kentucky Regulated segment.

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

	2015	2014	2013	$ Change 2015 vs. 2014	$ Change 2014 vs. 2013
U.K. Regulated	$ 968	$ 907	$ 855	$ 61	$ 52
Kentucky Regulated	343	312	304	31	8
Pennsylvania Regulated	252	265	209	(13)	56
Corporate and Other (a)(b)	(74)	(135)	(118)	61	(17)
Earnings from Ongoing Operations	$ 1,489	$ 1,349	$ 1,250	$ 140	$ 99

(a) 2014 and 2013 were adjusted to include costs that were previously allocated to the Supply segment that would remain with PPL after the completion of the transaction, if left unmitigated. See "Non-GAAP Financial Measures - Reconciliation of Earnings from Ongoing Operations" below for an itemization of special items impacting Corporate and Other.
(b) Costs were lower in 2015 compared with 2014, primarily due to the benefits of corporate restructuring. Costs were higher in 2014 compared with 2013, primarily due to higher long-term debt interest expense.

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

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

2016 Outlook

(PPL)

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

(PPL's U.K. Regulated Segment)

Excluding special items, relatively flat earnings are projected in 2016 compared with 2015, due to higher financing costs, depreciation expense, currency, taxes and other expenses, partially offset by lower operation and maintenance expense, including pension expense, and higher gross margins. The 2016 foreign currency exposure for this segment is 95% hedged at an average rate of $1.56 per pound.

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

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

(PPL's Pennsylvania Regulated Segment and PPL Electric)

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

(PPL's Corporate and Other Category)

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

(All Registrants)

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

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, MATS and the Clean Power Plan. See "Financial Condition - Environmental Matters" below for additional information on the CCRs requirements and Note 13 to the Financial Statements for a discussion of the other significant environmental matters. These and other stringent environmental requirements have led PPL, LKE, LG&E and KU to retire approximately 800 megawatts of coal-fired generating plants in Kentucky. In September 2015, KU retired two coal-fired units, with a combined summer capacity rating of 161 MW, at the Green River plant. 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. KU retired a 71 MW coal-fired unit at the Tyrone plant in 2013. 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.

Also as a result of the environmental requirements discussed above, LKE projects $1.9 billion ($1.0 billion at KU and $0.9 billion at LG&E) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 6 and Note 13 for additional information.

(All Registrants)

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

(PPL)

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. In June 2015, the spinoff was completed. See Note 8 to the Financial Statements for additional information relating to the transaction.

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 the appropriateness of this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

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

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

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

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

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

Costs of Spinoff

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges of $36 million for employee separation benefits were recorded related to 306 positions. Of this amount, $16 million related to 112 Energy Supply positions and is reflected in discontinued operations. The remaining $20 million is primarily reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. In 2015, the organizational structures were finalized for both PPL and Talen Energy which resulted in an additional charge of $10 million for employee separation benefits. Of this amount, $2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining $8 million is reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. At December 31, 2015 and 2014, the recorded liabilities related to the separation benefits were $13 million and $20 million, which are included in "Other current liabilities" on the Balance Sheets.

Additional employee-related costs incurred primarily included accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized $24 million of these costs at the spinoff closing date in 2015, which are reflected in discontinued operations.

PPL recorded $45 million and $27 million of third-party costs related to this transaction in 2015 and 2014. Of these costs, $32 million and $19 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $13 million and $8 million of consulting and other costs were incurred in 2015 and 2014, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the Statements of Income. No significant additional third-party costs are expected to be incurred.

At the close of the transaction in 2015, $72 million ($42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into interest expense and reflected in discontinued operations.

As a result of the June 2014 spinoff announcement, PPL recorded $50 million of deferred income tax expense in 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

Discontinued Operations

The operations of PPL's 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 in the June 1, 2015 spinoff of PPL Energy Supply.

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

(PPL)

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 afforded several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of Totex during the eight-year price control period (approximately $43 million annually), greater revenue certainty and a higher level of cost savings retention. See "Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

U.K. 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 GAAP reporting of depreciation expense. For 2015, this change in useful lives resulted in lower depreciation expense of $84 million ($66 million after-tax or $0.10 per share).

U.K. Distribution Revenue Reduction

In December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost will occur in the regulatory year beginning April 1, 2016. Under GAAP, WPD does not record a receivable for under recovery of regulated income (which this reduction represents), as a result earnings for the U.K. Regulated segment were adversely affected by $15 million in 2015 and $31 million in 2014. PPL projects earnings in 2016 will be positively affected by $32 million and earnings for 2017 will be positively affected by $17 million.

U.K. Tax Rate Change

In November 2015, the U.K. Summer 2015 Budget was enacted, which reduces the U.K.'s statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result of these changes, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of approximately $90 million (4% effective tax rate impact) in 2015.

Discount Rate Change for U.K. Pension Plans

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD will begin using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost. Based on current estimates, PPL expects this change to reduce net periodic defined benefit costs by $44 million ($36 million after-tax or $0.05 per share) in 2016. Assuming interest rates continue to rise, the benefit is highest in the initial year and then falls over time as the additional actuarial losses on liabilities are amortized. See "Application of Critical Accounting Policies-Defined Benefits" for additional information.

(PPL and PPL Electric)

Rate Case Proceedings

On March 31, 2015, PPL Electric filed a request with the PUC to increase its annual distribution revenue requirement by approximately $167.5 million. The application is based on a fully projected future test year of January 1, 2016 through December 31, 2016. On September 3, 2015, PPL Electric filed with the PUC Administrative Law Judge a petition for approval of a settlement agreement resolving all issues in the case. On November 19, 2015, the PUC issued its final order approving the settlement agreement. Under that agreement, PPL Electric was permitted to increase its annual distribution rates by $124 million, effective January 1, 2016.

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

Regional Transmission Expansion Plan

In July 2014, PPL Electric announced Project Compass, a proposal to construct a new multi-state transmission line. On October 27, 2015, PPL Electric filed an interconnection application with the New York Independent System Operator for the first segment of the project which contains a proposed 95-mile, $500 million to $600 million line between Blakely, Pennsylvania, and Ramapo, New York. The proposed line is intended to provide significant economic benefits for electricity customers in New York and also to provide grid reliability and grid security benefits for electricity customers in both states. The construction is proposed to begin in 2019 and be in operation by 2023. There will be numerous approvals required, including, among others, the public utility commissions of Pennsylvania and New York, the New York Independent System Operator, PJM, and FERC. As originally proposed in 2014, Project Compass would have run from western Pennsylvania into New York and New Jersey and also south into Maryland, covering approximately 725 miles at an estimated cost of $4 billion to $6 billion. The project has been revised to include about 475 miles of transmission line in Pennsylvania and New York at an estimated cost of $3 billion to $4 billion. Beyond this segment, no schedule is proposed for the rest of the project. There can be no assurance that this segment of Project Compass will be approved as proposed. Additionally, PPL Electric is continuing to study the project and may modify it in the future. The capital expenditures related to this project are excluded from the Capital Expenditures table included in "Liquidity and Capital Resources-Forecasted Uses of Cash" below.

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 provided 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. During the fourth quarter of 2015, the FERC approved the settlement agreement resolving the rate case with respect to these two municipalities, including approval of the formula rate with a true-up provision and authorizing a return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. In August 2015, KU filed a partial settlement agreement with the nine terminating municipalities, resolving all but one open matter with one municipality. The settlement was approved by FERC in the fourth quarter of 2015, including authorizing the agreed-upon refunds, approving the formula rate with a true-up provision, and authorizing a 10.25% return on equity. Refunds to both the remaining municipals and the departing municipals were issued during the fourth quarter of 2015 totaling $3.4 million. A single remaining unresolved issue with one terminating municipality is in FERC litigation proceedings. Hearings on the dispute were conducted in January 2016 and preliminary rulings on the matter may occur in mid- or late-2016. KU cannot predict the ultimate outcome of this remaining FERC proceeding, but the amounts under continuing dispute are not estimated to be significant.

Rate Case Proceedings (LKE, LG&E and KU)

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

On June 30, 2015, KU filed an application with the VSCC to increase annual Virginia base electricity revenue by approximately $7 million, representing an increase of 10.1%. On December 3, 2015, KU and other parties filed a proposed settlement with the VSCC. On February 2, 2016, the VSCC issued an order approving the settlement. The settlement provides for annual electric base revenues of $6 million and establishes an authorized return on equity range of 9.5% to 10.5% for annual rate review purposes. The new rates became effective February 15, 2016.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment. The "Non-GAAP Financial Measures" discussion provides explanations of non-GAAP financial measures and a reconciliation of non-GAAP financial measures to the most comparable GAAP measure. The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. "Segment Earnings, Non-GAAP Financial Measures and Statement of Income Analysis" is presented separately for PPL.

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

PPL Segment Earnings, Non-GAAP Financial Measures and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling to U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and allocated financing costs. The U.K. Regulated segment represents 70% of PPL's Income from Continuing Operations After Income Taxes for 2015 and 42% of PPL's assets at December 31, 2015.

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

				Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Operating revenues	$ 2,410	$ 2,621	$ 2,403	$ (211)	$ 218
Other operation and maintenance	477	482	499	(5)	(17)
Depreciation	242	337	300	(95)	37
Taxes, other than income	148	157	147	(9)	10
Total operating expenses	867	976	946	(109)	30
Other Income (Expense) - net	123	127	(39)	(4)	166
Interest Expense	417	461	425	(44)	36
Income Taxes	128	329	71	(201)	258
Net Income	1,121	982	922	139	60
Less: Special Items	153	75	67	78	8
Earnings from Ongoing Operations	$ 968	$ 907	$ 855	$ 61	$ 52

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

	Income Statement Line Item	2015	2014	2013
Foreign currency-related economic hedges, net of tax of ($30), ($68), $15 (a)	Other Income (Expense) - net	$ 55	$ 127	$ (29)
WPD Midlands acquisition-related adjustments:				
Separation benefits, net of tax of $0, $0, $1	Other operation and maintenance			(4)
Other acquisition-related adjustments, net of tax of ($1), $0, ($2)		2		8
Other:				
Change in U.K. tax rate (b)	Income Taxes	78		84
Windfall Profits Tax litigation (c)	Income Taxes			43
Settlement of certain income tax positions (d)	Income Taxes	18		
Change in WPD line loss accrual, net of tax of $0, $13, $10 (e)	Operating Revenues		(52)	(35)
Total		$ 153	$ 75	$ 67

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.
(b) The U.K. Finance Acts of 2015 and 2013 reduced the U.K.'s statutory income tax rates. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2015 and 2013. See Note 5 to the Financial Statements for additional information.
(c) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling by the U.S. Court of Appeals for the Third Circuit concerning the creditability of the U.K. Windfall Profits Tax for U.S. Federal income tax purposes. As a result, PPL recorded an income tax benefit in 2013. See Note 5 to the Financial Statements for additional information.
(d) Relates to the 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.
(e) In 2013, WPD Midlands increased its line loss liability for DCPR4 based on additional information provided by Ofgem regarding the calculation. 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 for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

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

	2015 vs. 2014	2014 vs. 2013
U.K.		
Gross margins	$ (110)	$ 94
Other operation and maintenance	(14)	44
Depreciation	76	(19)
Interest expense	3	(15)
Other	(5)	4
Income taxes	48	(24)
U.S.		
Interest expense and other	12	4
Income taxes	55	(41)
Foreign currency exchange, after-tax	(4)	5
Earnings from Ongoing Operations	61	52
Special items, after-tax	78	8
Net Income	$ 139	$ 60

U.K.

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

- Lower other operation and maintenance in 2014 compared with 2013 primarily due to $38 million from lower pension expense.

- Lower depreciation expense in 2015 compared with 2014 primarily due to an $84 million impact of an extension of the network asset lives. See Note 1 to the Financial Statements for additional information.

- Higher depreciation expense in 2014 compared with 2013 primarily due to PP&E additions, net.

- Higher interest expense in 2014 compared with 2013 primarily due to an October 2013 debt issuance.

- Lower income taxes in 2015 compared with 2014 primarily due to $25 million from lower U.K. tax rates and $11 million from lower pre-tax income.

- Higher income taxes in 2014 compared with 2013 primarily due to higher pre-tax income.

U.S.

- Lower income taxes in 2015 compared with 2014 primarily due to decreases in taxable dividends.

- Higher income taxes in 2014 compared with 2013 primarily due to a $19 million increase primarily in taxable dividends and a $19 million benefit in 2013 related to an IRS ruling regarding 2010 U.K. earnings and profits calculations.

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 20% of PPL's Income from Continuing Operations After Income Taxes for 2015 and 35% of PPL's assets at December 31, 2015.

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

	2015	2014	2013	Change 2015 vs. 2014	Change 2014 vs. 2013
Operating revenues	$ 3,115	$ 3,168	$ 2,976	$ (53)	$ 192
Fuel	863	965	896	(102)	69
Energy purchases	184	253	217	(69)	36
Other operation and maintenance	837	815	778	22	37
Depreciation	382	354	334	28	20
Taxes, other than income	57	52	48	5	4
Total operating expenses	2,323	2,439	2,273	(116)	166
Other Income (Expense) - net	(13)	(9)	(7)	(4)	(2)
Interest Expense	232	219	212	13	7
Income Taxes	221	189	179	32	10
Income (Loss) from Discontinued Operations (net of income taxes)			2		(2)
Net Income	326	312	307	14	5
Less: Special Items	(17)		3	(17)	(3)
Earnings from Ongoing Operations	$ 343	$ 312	$ 304	$ 31	$ 8

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

	Income Statement Line Item	2015	2014	2013
Certain valuation allowances (a)	Income Taxes	$ (12)		
Acquisition-related adjustment, net of tax of $0, $0, $0 (b)	Other Income (Expense) - net	(5)		
Discontinued operations (c)	Discontinued Operations			$ 2
Adjustment to investment, net of tax of $0, $0, $0 (d)	Other Income (Expense) - net			1
Total		$ (17)		$ 3

(a) Recorded at LKE and represents a valuation allowance against tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.
(b) Recorded at PPL and allocated to the Kentucky Regulated segment. The amount represents a settlement between E.ON AG (a German corporation and the indirect parent of E.ON US Investments Corp., the former parent of LKE) and PPL for a tax matter.
(c) Recorded at LKE.
(d) Recorded by KU.

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

	2015 vs. 2014	2014 vs. 2013
Kentucky Gross Margins	$ 88	$ 78
Other operation and maintenance	(21)	(35)
Depreciation	(1)	(14)
Taxes, other than income	(3)	(3)
Other Income (Expense) - net	1	(1)
Interest Expense	(13)	(7)
Income Taxes	(20)	(10)
Earnings from Ongoing Operations	31	8
Special Items, after-tax	(17)	(3)
Net Income	$ 14	$ 5

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

- Higher other operation and maintenance in 2015 compared with 2014 primarily due to $14 million of higher pension expense and $11 million of higher costs related to the Cane Run units' retirements consisting of an inventory write-down and separation benefits, partially offset by $7 million of lower storm costs and lower bad debt expense of $6 million.

- Higher other operation and maintenance in 2014 compared with 2013 primarily due to $14 million of higher expenses due to the timing and scope of scheduled generation maintenance outages, $9 million of higher bad debt expense and higher storm expenses of $8 million.

- Higher depreciation in 2014 compared with 2013 due to additions to PP&E, net.

- Higher interest expense in 2015 compared with 2014 primarily due to the issuance of $550 million of incremental First Mortgage Bonds by LG&E and KU in September 2015 and higher interest rates on $500 million of First Mortgage Bonds refinanced by LG&E and KU.

- Higher interest expense in 2014 compared with 2013 primarily due to $22 million of higher expense resulting from the issuance of $500 million of First Mortgage Bonds in November 2013 and higher short-term debt balances partially offset by a $10 million loss on extinguishment of debt in 2013 related to the remarketing of the PPL Capital Funding Junior Subordinated Notes component of the 2010 Equity Units and simultaneous exchange into Senior Notes in the second quarter of 2013, and a $5 million decrease due to lower rates on the related Senior Notes as compared with the Junior Subordinated Notes.

- Higher income taxes in 2015 compared with 2014 primarily due to higher pre-tax income.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. The Pennsylvania Regulated segment represents 16% of PPL's Income from Continuing Operations After Income Taxes for 2015 and 22% of PPL's assets at December 31, 2015.

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

	2015	2014	2013	Change 2015 vs. 2014	Change 2014 vs. 2013
Operating revenues	$ 2,124	$ 2,044	$ 1,870	$ 80	$ 174
Energy purchases					
External	657	587	588	70	(1)
Intersegment	14	84	51	(70)	33
Other operation and maintenance	607	543	531	64	12
Depreciation	214	185	178	29	7
Taxes, other than income	94	107	103	(13)	4
Total operating expenses	1,586	1,506	1,451	80	55
Other Income (Expense) - net	8	7	6	1	1
Interest Expense	130	122	108	8	14
Income Taxes	164	160	108	4	52
Net Income	252	263	209	(11)	54
Less: Special Items		(2)		2	(2)
Earnings from Ongoing Operations	$ 252	$ 265	$ 209	$ (13)	$ 56

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

	Income Statement Line Item	2015	2014	2013
Separation benefits, net of tax of $0, $1, $0 (a)	Other operation and maintenance		$ (2)	

(a) In June 2014, PPL Electric's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, bargaining unit one-time voluntary retirement benefits were recorded.

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 and the item that management considers special on separate lines and not in their respective Statement of Income line item.

	2015 vs. 2014	2014 vs. 2013
Pennsylvania Gross Delivery Margins	$ 65	$ 118
Other operation and maintenance	(58)	13
Depreciation	(29)	(7)
Taxes, other than income	18	
Other Income (Expense) - net	1	1
Interest Expense	(8)	(14)
Income Taxes	(2)	(55)
Earnings from Ongoing Operations	(13)	56
Special Item, after-tax	2	(2)
Net Income	$ (11)	$ 54

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

- Higher other operation and maintenance for 2015 compared with 2014 primarily due to $30 million of higher corporate service costs allocated to PPL Electric, $11 million of higher vegetation management expenses and related costs for additional work done by outside vendors and $5 million of higher bad debt expenses.

- Lower other operation and maintenance for 2014 compared with 2013 primarily due to $16 million of lower payroll related expenses due to lower headcount, less maintenance projects and more focus on capital work in 2014.

- Higher depreciation for both periods primarily due to transmission and distribution additions to PP&E, net, related to the ongoing efforts to improve reliability and replace aging infrastructure.

- Higher interest expense in 2014 compared with 2013 primarily due to the issuance of First Mortgage Bonds in July 2013 and June 2014.

- Lower taxes, other than income for 2015 compared with 2014 primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

- Higher income taxes in 2014 compared with 2013, primarily due to higher pre-tax income which increased income taxes by $46 million and tax benefits related to federal and state income tax reserves of $8 million in 2013.

Non-GAAP Financial Measures

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

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure and it should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's fundamental earnings performance as another criterion in making investment decisions. PPL's management also uses Earnings from Ongoing Operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance. Earnings from Ongoing Operations is adjusted for the impact of special items as described below, which for all years includes the Supply segment's earnings now reflected in discontinued operations. Also included in special items in 2015 is the loss on spinoff, reflecting the fair value of the Supply segment being less than PPL's recorded value as of the June 1, 2015 spinoff. Earnings from Ongoing Operations for 2014 and 2013 also reflects, within the Corporate and Other category, the impact of spinoff dissynergies that, if not mitigated, would remain with PPL after completion of the spinoff.

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

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

Reconciliation of Earnings from Ongoing Operations

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

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

	2014					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income (Loss)	$ 982	$ 312	$ 263	$ (120)	$ 300	$ 1,737
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges	127					127
Spinoff of the Supply segment:						
Supply segment earnings					307	307
Discontinued operations adjustments				(5)	5	
Change in tax valuation allowances				(46)		(46)
Transition and transaction costs				(5)	(12)	(17)
Separation benefits				(12)		(12)
Other:						
Change in WPD line loss accrual	(52)					(52)
Separation benefits			(2)			(2)
Total Special Items	75		(2)	(68)	300	305
Dissynergies - spinoff of Supply segment expense (benefit):						
Indirect operation and maintenance				47		47
Interest expense				29		29
Depreciation				7		7
Total dissynergies - spinoff of Supply segment				83		83
Earnings from Ongoing Operations (adjusted)	$ 907	$ 312	$ 265	$ (135)	$	$ 1,349

	2013					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income (Loss)	$ 922	$ 307	$ 209	$ (68)	$ (240)	$ 1,130
Less: Special Items (expense) benefit:						
Foreign currency-related economic hedges	(29)					(29)
Spinoff of the Supply segment:						
Supply segment earnings					(272)	(272)
Discontinued operations adjustments				(32)	32	
WPD Midlands acquisition-related adjustments:						
Separation benefits	(4)					(4)
Other acquisition-related adjustments	8					8
Other:						
LKE discontinued operations		2				2
Adjustment to investment		1				1
Windfall tax litigation	43					43
Change in WPD line loss accrual	(35)					(35)
Change in U.K. tax rate	84					84
Total Special Items	67	3		(32)	(240)	(202)
Dissynergies - spinoff of Supply segment expense (benefit):						
Indirect operation and maintenance				45		45
Interest expense				30		30
Depreciation				7		7
Total dissynergies - spinoff of Supply segment				82		82
Earnings from Ongoing Operations (adjusted)	$ 855	$ 304	$ 209	$ (118)	$	$ 1,250

Margins

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

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

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

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

Reconciliation of Margins

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

	2015					2014				
	U.K. Gross Margins	**Kentucky Gross Margins**	**PA Gross Delivery Margins**	**Other (a)**	**Operating Income (b)**	**U.K. Gross Margins**	**Kentucky Gross Margins**	**PA Gross Delivery Margins**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 2,364 (c)	$ 3,115	$ 2,124	$ 66	$ 7,669	$ 2,638 (c)	$ 3,168	$ 2,044	$ 2	$ 7,852
Operating Expenses										
Fuel		863			863		965			965
Energy purchases		184	657	14	855		253	587	84	924
Energy purchases from affiliate			14	(14)				84	(84)	
Other operation and maintenance	121	100	114	1,603	1,938	111	99	103	1,543	1,856
Depreciation		38		845	883		11		912	923
Taxes, other than income		4	102	193	299		2	98	217	317
Total Operating Expenses	121	1,189	887	2,641	4,838	111	1,330	872	2,672	4,985
Total	$ 2,243	$ 1,926	$ 1,237	$ (2,575)	$ 2,831	$ 2,527	$ 1,838	$ 1,172	$ (2,670)	$ 2,867

	2013				
	U.K. Gross Margins	**Kentucky Gross Margins**	**PA Gross Delivery Margins**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 2,404 (c)	$ 2,976	$ 1,870	$ 13	$ 7,263
Operating Expenses					
Fuel		896		(1)	895
Energy purchases		217	588	51	856
Energy purchases from affiliate			51	(51)	
Other operation and maintenance	107	97	82	1,524	1,810
Depreciation		5		838	843
Taxes, other than income		1	95	202	298
Total Operating Expenses	107	1,216	816	2,563	4,702
Total	$ 2,297	$ 1,760	$ 1,054	$ (2,550)	$ 2,561

(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) 2015, 2014 and 2013 exclude $46 million, $48 million and $44 million of ancillary activity revenues. 2014 and 2013 also exclude $65 million and $45 million of revenue reductions related to adjustments to WPD's line loss accrual related to DPCR4 which are considered special items.

Changes in Margins

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

	2015	2014	2013	$ Change 2015 vs. 2014	$ Change 2014 vs. 2013
U.K.					
U.K. Gross Margins	$ 2,243	$ 2,527	$ 2,297	$ (284)	$ 230
Impact of changes in foreign currency exchange rates				(174)	136
U.K. Gross Margins excluding impact of foreign currency exchange rates				$ (110)	$ 94
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	$ 867	$ 833	$ 791	$ 34	$ 42
KU	1,059	1,005	969	54	36
LKE	$ 1,926	$ 1,838	$ 1,760	$ 88	$ 78
Pennsylvania Regulated					
Pennsylvania Gross Delivery Margins					
Distribution	$ 842	$ 837	$ 803	$ 5	$ 34
Transmission	395	335	251	60	84
Total	$ 1,237	$ 1,172	$ 1,054	$ 65	$ 118

U.K. Gross Margins

U.K. Gross Margins excluding the impact of changes in foreign currency exchange rates, decreased in 2015 compared with 2014 primarily due to $171 million from the April 1, 2015 price decrease resulting from the commencement of RIIO-ED1, partially offset by $46 million from the April 1, 2014 price increase.

U.K. Gross Margins excluding the impact of changes in foreign currency exchange rates, increased in 2014 compared with 2013 primarily due to $194 million from the April 1, 2014 and 2013 price increases, partially offset by $88 million from lower volumes due primarily to weather.

Kentucky Gross Margins

Kentucky Gross Margins increased in 2015 compared with 2014, primarily due to higher base rates of $64 million ($61 million at KU and $3 million at LG&E) and returns on additional environmental capital investments of $53 million ($36 million at LG&E and $17 million at KU). The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. These increases were partially offset by a decrease in volumes of $28 million ($23 million at KU and $5 million at LG&E) primarily due to milder weather during the fourth quarter of 2015.

Kentucky Gross Margins increased in 2014 compared with 2013, primarily due to returns on additional environmental capital investments of $55 million ($27 million at LG&E and $28 million at KU) and higher volumes of $13 million ($5 million at LG&E and $8 million at KU). The change in volumes was driven by unusually cold weather in the first quarter of 2014.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased in 2015 compared with 2014 primarily due to returns on additional distribution improvement capital investments of $17 million partially offset by a $12 million benefit recorded in the first quarter of 2014 as a result of a change in estimate of a regulatory liability.

Distribution margins increased in 2014 compared with 2013 primarily due to returns on additional distribution improvement capital investments of $18 million and a $12 million benefit from a change in estimate of a regulatory liability.

Transmission

Transmission margins increased for both periods, primarily due to returns on additional capital investments focused on replacing the aging infrastructure and improving reliability.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items are included above within "Margins" and are not discussed separately.

	2015 vs. 2014	2014 vs. 2013
Operating Revenues	$ (183)	$ 589
Fuel	(102)	70
Energy purchases	(69)	68

Other Operation and Maintenance

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

	2015 vs. 2014	2014 vs. 2013
Domestic:		
LKE timing and scope of scheduled generation maintenance outages	$ (1)	$ 14
LKE Cane Run retired units (a)	11	
LKE pension expense (b)	14	(15)
PPL Electric Act 129 costs incurred	9	6
PPL Electric vegetation management	7	(4)
PPL Electric environmental costs	5	1
PPL Electric payroll-related costs (c)	2	(16)
Bad debts	7	13
Storm costs (d)	(18)	26
Separation benefits related to the spinoff of PPL Energy Supply (Note 8)	(12)	20
Third-party costs related to the spinoff of PPL Energy Supply (Note 8)	5	8
Stock compensation expense	3	5
Corporate costs previously included in discontinued operations (e)	27	
Other	26	7
U.K.:		
Third-party engineering	7	(9)
Pension expense (f)	(14)	(38)
Engineering management	19	3
Foreign currency exchange rates (g)	(33)	23
Acquisition-related adjustments	(3)	12
National Grid exit charges	11	7
Other	10	(17)
	$ 82	$ 46

(a) Represents an inventory write-down and separation benefits.
(b) The increase in 2015 compared with 2014 is attributed to the change in mortality tables and lower discount rates.
(c) The decrease in 2014 compared with 2013 was due to lower headcount, less maintenance work and more focus on capital projects in 2014.
(d) The increase in 2014 compared with 2013 was due to more storm events.
(e) The increase in 2015 compared with 2014 was due to the corporate costs allocated to PPL Energy Supply (and included in discontinued operations) prior to the spin. As a result of the spinoff on June 1, 2015, these corporate costs now remain in continuing operations.
(f) The decrease in 2014 compared with 2013 was primarily due to lower amortization of prior period losses and an increase in expected asset returns.
(g) The offsetting impacts from foreign currency hedging instruments are recorded in "Other Income (Expense)-net."

Depreciation

The increase (decrease) in depreciation was due to:

	2015 vs. 2014	2014 vs. 2013
Additions to PP&E, net	$ 77	$ 67
Foreign currency exchange rates	(19)	18
Network asset useful life extension (a)	(84)	
Other	(14)	(5)
Total	$ (40)	$ 80

(a) Effective January 1, 2015, after completion of 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 resulting in lower depreciation of $84 million ($66 million after-tax or $0.10 per share).

Taxes, Other Than Income

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

	2015 vs. 2014	2014 vs. 2013
State gross receipts tax (a)	$ (14)	$ 4
Domestic property tax expense	5	4
Foreign currency exchange rates	(9)	10
Other		1
Total	$ (18)	$ 19

(a) The decrease in 2015 compared with 2014 was primarily due to the settlement of the 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

Other Income (Expense) - net

Other income (expense) - net increased $3 million in 2015 compared with 2014 and increased $160 million in 2014 compared with 2013, primarily due to changes in realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

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

	2015 vs. 2014	2014 vs. 2013
Long-term debt interest expense (a)	$ 61	$ 65
Hedging activities and ineffectiveness	(4)	(11)
Loss on extinguishment of debt (b)	(9)	(1)
Foreign currency exchange rates	(26)	19
Other	6	(7)
Total	$ 28	$ 65

(a) The increase in 2015 compared with 2014 is primarily due to 2015 including interest expense related to certain PPL Energy Funding debt that was previously associated with PPL's Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes) in 2014.

The increase in 2014 compared with 2013 was primarily due to debt issuances at WPD (West Midlands) in October 2013, LG&E and KU in November 2013 and PPL Electric in June 2014 and July 2013.

(b) In March 2014, a $9 million loss was recorded related to PPL Capital Funding's remarketing and debt exchange of the junior subordinated notes originally issued in April 2011 as a component of the 2011 Equity Units. In May 2013, a $10 million loss was recorded related to PPL Capital Funding's remarketing and exchange of the junior subordinated notes that were originally issued in June 2010 as a component of PPL's 2010 Equity Units.

Income Taxes

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

	2015 vs. 2014	2014 vs. 2013
Change in pre-tax income at current period tax rates	$ (18)	$ 151
Valuation allowance adjustments (a)	(31)	31
State deferred tax rate change (b)		(16)
Federal and state tax reserve adjustments (c)	(21)	48
Federal and state tax return adjustments	(4)	7
U.S. income tax on foreign earnings net of foreign tax credit (d)	(55)	42
U.K. Finance Act adjustments (e)	(90)	96
Impact of lower U.K. income tax rates (e)	4	(36)
Interest benefit on U.K. financing activities	(15)	2
Other	3	7
Total	$ (227)	$ 332

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

As a result of the PPL Energy Supply spinoff announcement, PPL recorded $50 million of deferred income tax expense during 2014 to adjust the valuation allowance on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.

During 2013, PPL recorded $23 million of state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income at PPL Energy Supply over the remaining carryforward period of Pennsylvania net operating losses.

(b) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2014, and an increase to the future estimated state tax rate at December 31, 2013. PPL recorded an insignificant deferred tax benefit in 2014 and a $15 million deferred tax expense in 2013 related to its state deferred tax liabilities.

(c) During 2015, PPL recorded a $12 million tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

In 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, concerning the creditability of U.K. Windfall Profits Tax for U.S. federal income tax purposes. As a result of this decision, PPL recorded a tax benefit of $44 million during 2013. See Note 5 to the Financial Statements for additional information.

PPL recorded a tax benefit of $7 million during 2013 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization was zero.

(d) During 2015, PPL recorded lower income taxes primarily due to a decrease in taxable dividends.

During 2014, PPL recorded $47 million of income tax expense primarily attributable to taxable dividends.

During 2013, PPL recorded $28 million of income tax expense resulting from increased taxable dividends offset by a $19 million income tax benefit associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

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

The U.K.'s Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a $97 million deferred tax benefit in 2013 related to both rate decreases.

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

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

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

Financial Condition

Liquidity and Capital Resources

(All Registrants)

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

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2015					
Cash and cash equivalents	$ 836	$ 47	$ 30	$ 19	$ 11
Short-term debt	916		265	142	48
Notes payable with affiliates			54		

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2014					
Cash and cash equivalents	1,399	214	21	10	11
Short-term investments	120				
Short-term debt	836		575	264	236
Notes payable with affiliates			41		
December 31, 2013					
Cash and cash equivalents	863	25	35	8	21
Notes receivable from affiliates		150	70		
Short-term debt	701	20	245	20	150

(a) At December 31, 2015, $447 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 for additional information on undistributed earnings of WPD.

(PPL)

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

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2015					
Operating activities	$ 2,272	$ 602	$ 1,063	$ 554	$ 608
Investing activities	(3,439)	(1,108)	(1,203)	(689)	(512)
Financing activities	482	339	149	144	(96)
2014					
Operating activities	$ 2,941	$ 613	$ 999	$ 371	$ 566
Investing activities	(3,826)	(791)	(1,191)	(656)	(603)
Financing activities	262	367	178	287	27
2013					
Operating activities	$ 2,447	$ 523	$ 920	$ 366	$ 495
Investing activities	(3,664)	(1,080)	(1,502)	(577)	(853)
Financing activities	2,753	442	574	197	358
2015 vs. 2014 Change					
Operating activities	$ (669)	$ (11)	$ 64	$ 183	$ 42
Investing activities	387	(317)	(12)	(33)	91
Financing activities	220	(28)	(29)	(143)	(123)
2014 vs. 2013 Change					
Operating activities	$ 494	$ 90	$ 79	$ 5	$ 71
Investing activities	(162)	289	311	(79)	250
Financing activities	(2,491)	(75)	(396)	90	(331)

Operating Activities

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

	PPL	PPL Electric	LKE	LG&E	KU
2015 vs. 2014					
Change - Cash Provided (Used):					
Net income	$ 166	$ (11)	$ 20	$ 16	$ 14
Non-cash components	(280)	181	(184)	21	(52)
Working capital	(341)	(148)	335	190	152
Defined benefit plan funding	(115)	(10)	(25)	(13)	(16)
Other operating activities	(99)	(23)	(82)	(31)	(56)
Total	$ (669)	$ (11)	$ 64	$ 183	$ 42

	PPL	PPL Electric	LKE	LG&E	KU
2014 vs. 2013					
Change - Cash Provided (Used):					
Net income	$ 69	$ 54	$ (3)	$ 6	$ (8)
Non-cash components	124	(53)	206	91	166
Working capital	438	7	(129)	(65)	(96)
Defined benefit plan funding	66	70	123	35	60
Other operating activities	(203)	12	(118)	(62)	(51)
Total	$ 494	$ 90	$ 79	$ 5	$ 71

(PPL)

PPL had a $669 million decrease in cash from operating activities from continuing operations in 2015 compared with 2014.

- Net income improved by $166 million between the periods, but included a decrease in net non-cash charges of $280 million. These net non-cash charges included a $238 million decrease in deferred income taxes and $65 million of changes to the WPD line loss accrual. These decreases in non-cash charges were partially offset by $110 million of lower unrealized gains on hedging activities. The net $114 million decrease from net income and non-cash adjustments between the periods was primarily due to lower margins from the U.K. Regulated segment, partially offset by higher margins from the Kentucky and Pennsylvania Regulated segments.
- The $341 million decrease in cash from changes in working capital was primarily due to a decrease in taxes payable (primarily due to a decrease in current income tax expense in 2015), a decrease in accounts payable (primarily due to timing of fuel purchases and payments and unfavorable weather in 2015) partially offset by a decrease in accounts receivable (primarily due to unfavorable weather in 2015).
- The $99 million decrease in cash provided by other operating activities was primarily due to payments of $101 million for the settlement in 2015 of forward starting interest rate swaps.

PPL had a $494 million increase in cash provided by operating activities from continuing operations in 2014 compared with 2013.

- Net income improved by $69 million between the periods. This included an additional $124 million of net non-cash charges, including a $279 million increase in deferred income tax expense. These non-cash charges were partially offset by $243 million of higher unrealized gains on hedging activities.
- The $438 million increase in cash from changes in working capital was partially due to an increase in taxes payable (primarily due an increase in current income tax expense in 2014), a change in uncertain tax positions between the periods and lower growth in accounts receivable and a decline in unbilled revenue.
- The $166 million decrease in cash from other operating activities was partially due to net proceeds of $104 million for settlement in 2013 of forward starting interest rate swaps.

(PPL Electric)

PPL Electric had an $11 million decrease in cash provided by operating activities in 2015 compared with 2014.

- Net income decreased by $11 million between the periods and included an additional $181 million of net non-cash charges, primarily due to increases in deferred tax expense and depreciation.
- The $148 million decrease in cash from changes in working capital was partially due to a decrease in taxes payable (primarily due an increase in current income tax benefits in 2015) and a decrease in accounts payable (primarily due to milder weather and lower energy prices in December 2015), partially offset by a decrease in accounts receivable (primarily due to milder weather in 2015, improved collection performance and higher write-offs).
- Pension funding was $10 million higher in 2015.

PPL Electric had a $90 million increase in cash provided by operating activities in 2014 compared with 2013.

- Net income improved by $54 million between the periods. However, this included an additional $53 million of net non-cash benefits, primarily due to a decrease in deferred income tax expense.
- Pension funding was $70 million lower in 2014.

(LKE)

LKE had a $64 million increase in cash provided by operating activities in 2015 compared with 2014.

- LKE's non-cash components of net income included a $213 million decrease in deferred income taxes, partially offset by a $28 million increase in depreciation due to additional assets in service in 2015. Deferred income taxes were lower in 2015 as a large portion of the effect of accelerated tax depreciation did not result in cash as a result of the Federal net operating losses.

- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from PPL in 2015 for the use of excess tax depreciation deductions in 2014, decreases in accounts receivable and unbilled revenues due to milder weather in December 2015, a decrease in coal inventory as a result of plant retirements, and a decrease in natural gas stored underground due to lower gas prices in 2015, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.
- The decrease in cash from LKE's other operating activities was driven primarily by $88 million in payments for the settlement of interest rate swaps.

LKE had a $79 million increase in cash provided by operating activities in 2014 compared with 2013.

- LKE's non-cash components of net income included a $195 million increase in deferred income taxes primarily due to an increase in accelerated tax depreciation over book depreciation as a result of additional assets in service in 2014.
- The decrease in cash from working capital was driven primarily by an increase in income tax receivable and a decrease of income tax payable from PPL as a result of the use of excess tax depreciation deductions, and an increase in inventory due to increased coal purchases in anticipation of a cold December similar to that of 2013, partially offset by decreases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013.
- The decrease in cash from LKE's other operating activities was driven primarily by $86 million in proceeds from the settlement of interest rate swaps received in 2013.

(LG&E)

LG&E had a $183 million increase in cash provided by operating activities in 2015 compared with 2014.

- LG&E's non-cash components of net income included an $8 million increase in deferred income taxes and a $5 million increase in depreciation due to additional assets in service in 2015.
- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from LKE in 2015 for the use of excess tax depreciation deductions in 2014, a decrease in accounts receivable from affiliates due to lower fuel costs for jointly owned units compared to an increase in the prior year, a decrease in accounts receivable due to milder weather in December 2015 compared to an increase in the prior year, a decrease in coal inventory as a result of the retirement of Cane Run coal units, and a decrease in natural gas stored underground due to lower gas prices in 2015, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments compared to an increase in the prior year.
- The decrease in cash from LG&E's other operating activities was driven primarily by $44 million in payments for the settlement of interest rate swaps.

LG&E had a $5 million increase in cash provided by operating activities in 2014 compared with 2013.

- LG&E's non-cash components of net income included a $92 million increase in deferred income taxes primarily due to an increase in accelerated tax depreciation over book depreciation as a result of additional assets in service in 2014.
- The decrease in cash from working capital was driven primarily by an increase in income tax receivable from LKE as a result of the use of excess tax depreciation deductions, and an increase in accounts receivable from affiliates, partially offset by decreases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013.
- The decrease in cash from LG&E's other operating activities was driven primarily by $43 million in proceeds from the settlement of interest rate swaps received in 2013.

(KU)

KU had a $42 million increase in cash provided by operating activities in 2015 compared with 2014.

- KU's non-cash components of net income included a $64 million decrease in deferred income taxes, partially offset by a $23 million increase in depreciation due to additional assets in service in 2015. Deferred income taxes were lower in 2015 as a large portion of the effect of accelerated tax depreciation did not result in cash as a result of the Federal net operating losses.
- The increase in cash from changes in working capital was driven primarily by a decrease in income tax receivable as a result of receiving payment from LKE in 2015 for the use of excess tax depreciation deductions in 2014, a decrease in coal inventory as a result of the retirement of Green River coal units, and decreases in accounts receivable and unbilled revenues due to milder weather in December 2015, partially offset by a decrease in accounts payable to affiliates compared to an increase in the prior year due to lower fuel costs for jointly owned units and a decrease in accounts payable due to the timing of fuel purchases and payments.

- The decrease in cash from KU's other operating activities was driven primarily by $44 million in payments for the settlement of interest rate swaps.

KU had a $71 million increase in cash provided by operating activities in 2014 compared with 2013.
- KU's non-cash components of net income included a $155 million increase in deferred income taxes primarily due to the utilization of net operating losses and an increase in accelerated tax depreciation over book depreciation as a result of additional assets in service in 2014.
- The decrease in cash from working capital was driven primarily by an increase in income tax receivable and a decrease of income tax payable from LKE as a result of the use of excess tax depreciation deductions, and an increase in inventory due to increased coal purchases in anticipation of a cold December similar to that of 2013, partially offset by decreases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013 and an increase in accounts payable to affiliates.
- The decrease in cash from KU's other operating activities was driven primarily by $43 million in proceeds from the settlement of interest rate swaps received in 2013.

Investing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2015 vs. 2014					
Change - Cash Provided (Used):					
Expenditures for PP&E	$ 141	$ (166)	$ 52	$ (33)	$ 85
Notes receivable with affiliates activity, net		(150)	(70)		
Restricted cash and cash equivalent activity	(11)				
Purchase and sale of investments, net	256				
Other investing activities	1	(1)	6		6
Total	$ 387	$ (317)	$ (12)	$ (33)	$ 91
2014 vs. 2013					
Change - Cash Provided (Used):					
Expenditures for PP&E	$ (45)	$ (28)	$ 172	$ (79)	$ 251
Notes receivable with affiliates activity, net		300	140		
Restricted cash and cash equivalent activity	17				
Investment activity, net	(120)				
Other investing activities	(14)	17	(1)		(1)
Total	$ (162)	$ 289	$ 311	$ (79)	$ 250

(PPL)

For PPL, lower project expenditures at WPD and KU were partially offset by higher project expenditures at PPL Electric and LG&E. The decrease in expenditures for WPD was primarily due to a decrease in expenditures to enhance system reliability associated with the end of the DPCR5 price control period and changes in foreign currency exchange rates. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at KU's Ghent and E.W. Brown plants. The increase in expenditures for PPL Electric was primarily due to the Northeast Pocono reliability project, smart grid projects and other various projects, partially offset by the 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.

PPL received $136 million during 2015 from the sale of short-term investments.

For PPL, in 2014 compared with 2013, the increase in "Expenditures for PP&E" was partially due to expenditures made in 2014 at WPD (primarily due to projects to enhance system reliability and the effect of foreign currency exchange rates) partially offset by expenditures made in 2013 for the construction of Cane Run Unit 7 for both LG&E and KU.

PPL paid $120 million during 2014 from the purchase of short-term investments.

(PPL Electric)

For PPL Electric, in 2015 compared with 2014, the increase in expenditures was primarily due to the Northeast Pocono reliability project, smart grid projects and other various projects, partially offset by the completion of the Susquehanna-Roseland transmission project.

The changes in "Notes receivable with affiliates, net" resulted from proceeds of $150 million received in 2014 from repayments on a note extended in 2013.

(LKE)

In comparing 2015 with 2014, cash used by investing activities increased as a result of receiving payment from PPL in 2014 for the notes receivable issued in 2013, partially offset by lower PP&E expenditures. An increase in expenditures for LG&E was primarily due to higher expenditures for environmental air projects at the Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7. A decrease in expenditures for KU was primarily due to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at the Ghent and the E.W. Brown plants.

In comparing 2014 with 2013, cash used by investing activities decreased as a result of the decrease in PP&E expenditures for KU, partially offset by the increase in PP&E expenditures for LG&E. The decrease in expenditures for KU was primarily due to lower expenditures for the construction of Cane Run Unit 7 and CCR projects at the Ghent and the E.W. Brown plants, partially offset by higher expenditures for environmental air projects at the Ghent and the E.W. Brown plants. The increase in expenditures for LG&E was primarily due to environmental air projects at the Mill Creek plant and the gas service riser program, partially offset by lower expenditures for the construction of Cane Run Unit 7.

(LG&E)

In comparing 2015 with 2014, cash used by investing activities increased primarily due to higher expenditures for environmental air projects at the Mill Creek plant, partially offset by lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015.

In comparing 2014 with 2013, cash used by investing activities increased as a result of the increase in expenditures primarily due to environmental air projects at the Mill Creek plant and the gas service riser program, partially offset by lower expenditures for the construction of Cane Run Unit 7.

(KU)

In comparing 2015 with 2014, cash used by investing activities decreased primarily due to lower expenditures for the construction of Cane Run Unit 7 which was put into commercial operation in June 2015, and lower expenditures for environmental air projects and CCR projects at the Ghent and the E.W. Brown plants.

In comparing 2014 with 2013, cash used by investing activities decreased as a result of the decrease in expenditures primarily due to lower expenditures for the construction of Cane Run Unit 7 and CCR projects at the Ghent and the E.W. Brown plants, partially offset by higher expenditures for environmental air projects at the Ghent and the E.W. Brown plants.

(All Registrants)

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2016 through 2020.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2015 vs. 2014					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$ 1,177	$ (38)	$ 150	$ 300	$ 250
Debt issuance/retirement, affiliate			400		
Stock issuances/redemptions, net	(871)				
Dividends	(37)	(23)		(7)	(5)
Capital contributions/distributions, net		12	94	(67)	(91)
Changes in net short-term debt (a)	(53)	20	(668)	(366)	(274)
Other financing activities	4	1	(5)	(3)	(3)
Total	$ 220	$ (28)	$ (29)	$ (143)	$ (123)
2014 vs. 2013					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$ (1,979)	$ (62)	$ (496)	$ (248)	$ (248)
Stock issuances/redemptions, net	(263)				
Dividends	(89)	(31)		(13)	(24)
Capital contributions/distributions, net		58	(177)	71	(66)
Changes in net short-term debt (a)	(258)	(40)	276	279	6
Other financing activities	98		1	1	1
Total	$ (2,491)	$ (75)	$ (396)	$ 90	$ (331)

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

(PPL)

In 2015, PPL required $220 million additional cash from financing activities including the WPD, LG&E and KU long-term debt issuances in 2015, partially offset by lower common stock issuances in 2015.

In 2014, PPL required $2.5 billion less cash from financing activities including the PPL Capital Funding and WPD long-term debt issuances in 2014, lower common stock issuances in 2014 and improvements in cash from operations of $494 million which helped support the significant capital expenditure programs of its subsidiaries.

In 2014, financing activities also included net cash distributions of $1.2 billion to PPL from PPL Energy Supply (discontinued operations) for the proceeds from the PPL Montana hydroelectric generation facilities sale, net of a tax liability payment and proceeds from a tax grant.

In 2013, financing activities also included net cash contributions of $1.2 billion from PPL to PPL Energy Supply (discontinued operations) to fund debt maturities, to repay short-term debt and to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests.

(PPL Electric)

In 2015, PPL Electric required $28 million less cash from financing activities due to the use of cash on hand which helped support the significant capital expenditure program.

In 2014, PPL Electric required $75 million less cash from financing activities to support its significant capital expenditure program, primarily due to the receipt of $150 million on notes receivable from affiliates (as described in "Investing Activities" above) and improvements in cash from operations of $90 million.

(LKE)

In comparing 2015 with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt, partially offset by the $550 million of additional long-term debt issued by LG&E and KU in 2015 and lower distributions to PPL.

In comparing 2014 with 2013, cash provided by financing activities decreased as a result of the $500 million long-term debt issued by LG&E and KU in November 2013 and higher distributions to PPL, partially offset by an increase in short-term debt and an increase in notes payable with affiliates to fund capital expenditures.

(LG&E)

In comparing 2015 with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt and lower capital contributions from LKE, partially offset by the $300 million of additional long-term debt issued in 2015.

In comparing 2014 with 2013, cash provided by financing activities increased due to an increase in short-term debt to fund capital expenditures and an increase in contributions from LKE, offset by the $250 million of long-term debt issued in November 2013.

(KU)

In comparing 2015 with 2014, cash provided by financing activities decreased as a result of the repayment of short-term debt and lower capital contributions from LKE, partially offset by the $250 million of additional long-term debt issued in 2015.

In comparing 2014 with 2013, cash provided by financing activities decreased as a result of the $250 million long-term debt issued in November 2013, a decrease of contributions from LKE and higher dividends to LKE.

(All Registrants)

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

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2015 included:

	Debt		Net Stock
	Issuances (a)	**Retirements**	**Issuances**
Cash Flow Impact:			
PPL	$ 2,236	$ 1,000	$ 203
PPL Electric	348	100	
LKE (b)	1,450	900	
LG&E	550	250	
KU	500	250	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
(b) Issuances include a $400 million note with PPL Capital Funding. See Note 14 for additional information on intercompany borrowings.

ATM Program *(PPL)*

During 2015, PPL issued 1,476,700 shares of common stock under the program at an average price of $33.41 per share, receiving net proceeds of $49 million.

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

Auction Rate Securities *(LKE, LG&E and KU)*

At December 31, 2015, LG&E's and KU's tax-exempt revenue bonds in the form of auction rate securities total $231 million ($135 million at LG&E and $96 million at KU). These bonds continue to experience failed auctions and the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2015, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.22% (0.20% at LG&E and 0.24% at KU).

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2016.

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 December 31, 2015, the total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	$ 750		$ 471	$ 279
PPL Electric Credit Facility	300		1	299
LKE Credit Facility	75	$ 75		
LG&E Credit Facility	500		142	358
KU Credit Facilities	598		246	352
Total LKE Consolidated	1,173	75	388	710
Total U.S. Credit Facilities (a) (b) (c)	$ 2,223	$ 75	$ 860	$ 1,288
Total U.K. Credit Facilities (c) (d) (e)	£ 1,055	£ 133		£ 922

(a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.
(b) The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 13%, PPL Electric - 12%, LKE - 21%, LG&E - 12% and KU - 37%.
(c) Each company pays customary fees under its respective syndicated credit facility, as does KU under its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
(d) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
(e) At December 31, 2015, the unused capacity under the U.K. committed credit facilities was approximately $1.4 billion. The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 14% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2015, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	$ 225	$ 54		$ 171
LG&E Money Pool (a)	500		$ 142	358
KU Money Pool (a)	500		48	452

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

Commercial Paper (All Registrants)

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

	December 31, 2015			December 31, 2014
	Capacity	Commercial Paper Issuances	Unused Capacity	Commercial Paper Issuances
PPL Capital Funding	$ 600	$ 451	$ 149	
PPL Electric	300		300	
LG&E	350	142	208	$ 264
KU	350	48	302	236
Total LKE	700	190	510	500
Total PPL	$ 1,600	$ 641	$ 959	$ 500

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are currently authorized to incur, subject to market conditions, up to approximately $2 billion of long-term indebtedness in 2016, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

PPL plans to issue not more than $200 million of common stock in 2016.

(PPL Electric)

PPL Electric is currently authorized to incur, subject to market conditions, up to approximately $500 million of long-term indebtedness in 2016, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E and KU are currently authorized to incur, subject to market conditions, up to approximately $100 million each of long-term indebtedness in 2016, the proceeds of which would be used to fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, a $25 million bond with a put date in 2016.

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

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

Forecasted Uses of Cash

(All Registrants)

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

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2016 through 2020. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected 2016	2017	2018	2019	2020
PPL						
Construction expenditures (a) (b)						
Generating facilities	$ 679	$ 126	$ 143	$ 131	$ 134	$ 145
Distribution facilities	9,538	2,000	1,881	1,828	1,886	1,943
Transmission facilities	3,896	790	802	771	712	821
Environmental	1,947	404	349	442	398	354
Other	357	89	80	65	61	62
Total Capital Expenditures	$ 16,417	$ 3,409	$ 3,255	$ 3,237	$ 3,191	$ 3,325
PPL Electric (a) (b)						
Distribution facilities	$ 2,049	$ 465	$ 428	$ 383	$ 386	$ 387
Transmission facilities	3,283	700	694	660	599	630
Total Capital Expenditures	$ 5,332	$ 1,165	$ 1,122	$ 1,043	$ 985	$ 1,017
LKE (b)						
Generating facilities	$ 679	$ 126	$ 143	$ 131	$ 134	$ 145
Distribution facilities	1,324	255	265	251	275	278
Transmission facilities	613	90	107	111	114	191
Environmental	1,947	404	349	442	398	354
Other	314	80	70	57	53	54
Total Capital Expenditures	$ 4,877	$ 955	$ 934	$ 992	$ 974	$ 1,022
LG&E (b)						
Generating facilities	$ 302	$ 73	$ 72	$ 46	$ 54	$ 57
Distribution facilities	776	162	156	148	154	156
Transmission facilities	152	22	28	29	31	42
Environmental	935	229	139	181	207	179
Other	136	39	28	22	24	23
Total Capital Expenditures	$ 2,301	$ 525	$ 423	$ 426	$ 470	$ 457
KU (b)						
Generating facilities	$ 377	$ 53	$ 71	$ 85	$ 80	$ 88
Distribution facilities	548	93	109	103	121	122
Transmission facilities	461	68	79	82	83	149
Environmental	1,011	175	210	261	191	174
Other	170	39	40	33	28	30
Total Capital Expenditures	$ 2,567	$ 428	$ 509	$ 564	$ 503	$ 563

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately $88 million for PPL and $57 million for PPL Electric.
(b) The 2016 total excludes amounts included in accounts payable as of December 31, 2015.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets. This table also includes LKE's environmental projects related to existing and proposed EPA compliance standards excluding the Clean Power Plan (actual costs may be significantly lower or higher depending on the final requirements and market conditions; most environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Note 6 to the Financial Statements for information on LG&E's and KU's ECR mechanism and CPCN filing, and Note 8 to the Financial Statements for information on significant development plans.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2016 with proceeds from the sources noted below.

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

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2015, estimated contractual cash obligations were as follows.

	Total	2016	2017 - 2018	2019 - 2020	After 2020
PPL					
Long-term Debt (a)	$ 19,171	$ 485	$ 642	$ 1,341	$ 16,703
Interest on Long-term Debt (b)	16,206	863	1,688	1,669	11,986
Operating Leases (c)	141	33	52	25	31
Purchase Obligations (d)	3,135	1,108	858	378	791
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	430	328	102		
Total Contractual Cash Obligations	$ 39,083	$ 2,817	$ 3,342	$ 3,413	$ 29,511
PPL Electric					
Long-term Debt (a)	$ 2,864			$ 100	$ 2,764
Interest on Long-term Debt (b)	2,693	$ 129	$ 258	258	2,048
Purchase Obligations (d)	122	24	49	49	
Total Contractual Cash Obligations	$ 5,679	$ 153	$ 307	$ 407	$ 4,812
LKE					
Long-term Debt (a)	$ 5,135	$ 25	$ 292	$ 1,015	$ 3,803
Interest on Long-term Debt (b)	3,555	198	395	395	2,567
Operating Leases (c)	112	25	44	21	22
Coal and Natural Gas Purchase Obligations (g)	1,822	657	733	268	164
Unconditional Power Purchase Obligations (h)	765	26	54	57	628
Construction Obligations (i)	274	257	15	2	
Pension Benefit Plan Obligations (e)	30	30			
Other Obligations	88	78	7	3	
Total Contractual Cash Obligations	$ 11,781	$ 1,296	$ 1,540	$ 1,761	$ 7,184
LG&E					
Long-term Debt (a)	$ 1,659	$ 25	$ 292	$ 40	$ 1,302
Interest on Long-term Debt (b)	1,300	65	124	119	992
Operating Leases (c)	62	14	27	11	10
Coal and Natural Gas Purchase Obligations (g)	893	312	320	145	116
Unconditional Power Purchase Obligations (h)	530	18	38	39	435
Construction Obligations (i)	163	154	9		
Pension Benefit Plan Obligations (e)	11	11			
Other Obligations	24	20	3	1	
Total Contractual Cash Obligations	$ 4,642	$ 619	$ 813	$ 355	$ 2,855
KU					
Long-term Debt (a)	$ 2,351			$ 500	$ 1,851
Interest on Long-term Debt (b)	1,961	$ 90	$ 186	190	1,495
Operating Leases (c)	47	10	16	10	11
Coal and Natural Gas Purchase Obligations (g)	929	345	413	123	48
Unconditional Power Purchase Obligations (h)	235	8	16	18	193
Construction Obligations (i)	88	80	6	2	
Pension Benefit Plan Obligations (e)	9	9			
Other Obligations	26	20	4	2	
Total Contractual Cash Obligations	$ 5,646	$ 562	$ 641	$ 845	$ 3,598

(a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
(c) See Note 9 to the Financial Statements for additional information.
(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.
(e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2013. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2016 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
(f) At December 31, 2015, total unrecognized tax benefits of $5 million for PPL were excluded from this table as management cannot reasonably estimate the amount and period of future payments.
(g) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
(h) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.

(i) Represents construction commitments, including commitments for the LG&E's Mill Creek and KU's Ghent and E.W. Brown environmental air projects, LG&E's and KU's E.W. Brown Solar Unit, KU's E.W. Brown landfill and LG&E's Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2015, PPL declared its quarterly common stock dividend, payable January 4, 2016, at 37.75 cents per share (equivalent to $1.51 per annum). On February 4, 2016, PPL announced that the company is increasing its common stock dividend to 38 cents per share on a quarterly basis (equivalent to $1.52 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors at the time. Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2015, no interest payments were deferred.

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.

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

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

(All Registrants)

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

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's, 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. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2015.

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

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

In January 2015, Fitch withdrew its ratings for PPL, PPL Capital Funding, PPL Electric, LKE, LG&E, and KU.

(PPL)

In May 2015, Moody's upgraded the following ratings with a stable outlook:
- the long-term issuer rating from Baa3 to Baa2 for PPL;
- the senior unsecured rating from Baa3 to Baa2 for PPL Capital Funding; and
- the junior subordinated rating from Ba1 to Baa3 for PPL Capital Funding.

In May 2015, Fitch affirmed and withdrew its ratings for PPL UK Distribution Holdings Limited (formerly known as PPL WW), WPD (South Wales) and WPD (South West).

In June 2015, S&P upgraded the following ratings with a stable outlook:
- the long-term issuer rating from BBB to A- for PPL;
- the senior unsecured rating from BBB- to BBB+ for PPL Capital Funding; and
- the junior subordinated rating from BB+ to BBB for PPL Capital Funding

In June 2015, S&P affirmed the short-term issue ratings for WPD plc, WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West). S&P also upgraded the following ratings with a stable outlook:
- the long-term issuer rating from BBB to A- for WPD plc, WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West);
- the senior unsecured rating from BBB- to BBB+ for WPD plc; and
- the senior unsecured rating from BBB to A- for WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West).

In August 2015, S&P affirmed its ratings with a stable outlook for WPD plc, WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West).

In October 2015, Moody's and S&P assigned ratings of P-2 and A-2 to PPL Capital Funding's $600 million commercial paper program. S&P also assigned a short-term issuer rating of A-2 to PPL.

In November 2015, Moody's and S&P assigned ratings of Baa3 and BBB+ to WPD plc's £500 million 3.625% Senior Unsecured Notes due 2023.

In November 2015, Moody's withdrew its short-term ratings for WPD plc, WPD (East Midlands) and WPD (South West).

(PPL and PPL Electric)

In May 2015, Moody's affirmed its ratings and revised its outlook to positive for PPL Electric.

In June 2015, S&P affirmed its commercial paper rating and upgraded the following ratings with a stable outlook for PPL Electric:

- the long-term issuer rating from BBB to A-; and
- the senior secured rating from A- to A.

In September 2015, Moody's affirmed its commercial paper rating and upgraded the following ratings with a stable outlook for PPL Electric:

- the long-term issuer rating from Baa1 to A3; and
- the senior secured rating from A2 to A1.

In September 2015, Moody's and S&P assigned ratings of A1 and A to PPL Electric's $350 million 4.15% First Mortgage Bonds due 2045.

(PPL, LKE, LG&E and KU)

In May 2015, Moody's upgraded the following ratings with a stable outlook for LKE:

- the long-term issuer rating from Baa2 to Baa1; and
- the senior unsecured rating from Baa2 to Baa1.

In June 2015, S&P affirmed its commercial paper ratings for LG&E and KU. S&P also upgraded the following ratings with a stable outlook:

- the long-term issuer ratings from BBB to A- for LKE, LG&E and KU;
- the senior secured ratings from A- to A for LG&E and KU; and
- the senior unsecured rating from BBB- to BBB+ for LKE.

In June 2015, S&P upgraded its ratings from AA+ to AAA for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds and removed them from CreditWatch with positive implications.

In September 2015, Moody's and S&P assigned ratings of A1 and A to LG&E's $300 million 3.30% First Mortgage Bonds due 2025, LG&E's $250 million 4.375% First Mortgage Bonds due 2045, KU's $250 million 3.30% First Mortgage Bonds due 2025 and KU's $250 million 4.375% First Mortgage Bonds due 2045.

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £4.4 billion (approximately $6.6 billion) nominal value at December 31, 2015.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2015.

Guarantees for Subsidiaries *(PPL)*

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

Off-Balance Sheet Arrangements *(All Registrants)*

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

Risk Management

Market Risk

(All Registrants)

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

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

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at December 31.

	2015				2014		
	Exposure Hedged	**Fair Value, Net - Asset (Liability) (a)**	**Effect of a 10% Adverse Movement in Rates (b)**	**Maturities Ranging Through**	**Exposure Hedged**	**Fair Value, Net - Asset (Liability) (a)**	**Effect of a 10% Adverse Movement in Rates (b)**
PPL							
Cash flow hedges							
Interest rate swaps (c)	$ 300	$ (24)	$ (7)	2026	$ 1,600	$ (108)	$ (59)
Cross-currency swaps (d)	1,262	87	(152)	2028	1,262	27	(165)
Economic hedges							
Interest rate swaps (e)	179	(48)	(2)	2033	179	(49)	(3)
LKE							
Cash flow hedges							
Interest rate swaps (c)					1,000	(66)	(44)
Economic hedges							
Interest rate swaps (e)	179	(48)	(2)	2033	179	(49)	(3)
LG&E							
Cash flow hedges							
Interest rate swaps (c)					500	(33)	(22)
Economic hedges							
Interest rate swaps (e)	179	(48)	(2)	2033	179	(49)	(3)
KU							
Cash flow hedges							
Interest rate swaps (c)					500	(33)	(22)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.
(c) Changes in the fair value of 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 on interest expense at December 31, 2015 and 2014 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2015	2014
PPL	$ 710	$ 707
PPL Electric	152	132
LKE	192	138
LG&E	69	44
KU	104	82

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at December 31.

	2015				2014		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 50	$ 10	$ (7)	2016	£ 217	$ 17	$ (34)
Economic hedges (c)	1,831	198	(246)	2017	1,368	111	(193)

(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.

Commodity Price Risk (Non-trading)

(PPL, LKE, LG&E and KU)

LG&E's and KU's retail electric rates, LG&E's natural gas rates and KU's 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 17 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.

(All Registrants)

Defined Benefit Plans - Securities Price Risk

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

Credit Risk

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

(PPL and PPL Electric)

In 2013, the PUC approved PPL Electric's PLR procurement plan for the period of June 2013 through May 2015. To date, PPL Electric has conducted all of its planned competitive solicitations. In 2014, PPL Electric filed a request with the PUC for approval of PPL Electric's PLR procurement plan for the period of June 2015 through May 2017, which was approved in January 2015.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2015, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Notes 14, 16 and 17 to the Financial Statements for additional information on the competitive solicitation process, the Agreement, credit concentration and credit risk.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2015, changes in this exchange rate resulted in a foreign currency translation loss of $240 million, which primarily reflected a $589 million decrease to PP&E and goodwill offset by a decrease of $349 million to net liabilities. In 2014, changes in this exchange rate resulted in a foreign currency translation loss of $290 million, which primarily reflected a $680 million decrease to PP&E and goodwill offset by a decrease of $390 million to net liabilities. In 2013, changes in this exchange rate resulted in a foreign currency translation gain of $150 million, which primarily reflected a $330 million increase to PP&E and goodwill offset by an increase of $180 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

(All Registrants)

Related Party Transactions

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

Acquisitions, Development and Divestitures

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

(PPL)

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

Environmental Matters

(All Registrants)

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 significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating and maintenance expenses are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 13 to the Financial Statements for a discussion of the more significant environmental matters including:
- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines,
- Mercury and Air Toxics Standards,
- National Ambient Air Quality Standards, and
- Superfund and Other Remediation.

Additionally, see "Business - Environmental Matters" for additional information on environmental matters.

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In October 2015, the EPA's final rule regulating CCRs became effective. In connection with the final CCR rule, LG&E and KU recorded increases to existing AROs of $228 million during 2015**.** See Note 19 to the Financial Statements 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. See Note 6 for details surrounding the CPCN and ECR filings that request rate recovery of the costs related to this rule.

(All Registrants)

Competition

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

New Accounting Guidance

See Notes 1 and 21 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

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

Price Risk Management *(PPL)*

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

Defined Benefits

(All Registrants)

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

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

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

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

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

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

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

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

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

In addition to the economic assumptions above that are evaluated annually, Management must also make assumptions regarding the life expectancy of employees covered under their defined benefit pension and other postretirement benefit plans. At December 31, 2014, the plan sponsors adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, plan sponsors updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in an increase to U.S. defined benefit pension and other postretirement benefit obligations, an increase to future expense and a decrease to funded status.

(PPL)

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

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

(All Registrants)

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

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

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

The following table provides the weighted-average assumptions used for discount rate, expected return on plan assets and rate of compensation increase at December 31.

Assumption / Registrant	2015	2014
Discount rate		
Pension - PPL (U.S.)	4.59%	4.25%
Pension - PPL (U.K.)	3.68%	3.85%
Pension - LKE	4.56%	4.25%
Pension - LG&E	4.49%	4.20%
Other Postretirement - PPL	4.48%	4.09%
Other Postretirement - LKE	4.49%	4.06%
Expected return on plan assets		
Pension - PPL (U.S.)	7.00%	7.00%
Pension - PPL (U.K.)	7.20%	7.19%
Pension - LKE	7.00%	7.00%
Pension - LG&E	7.00%	7.00%
Other Postretirement - PPL	6.11%	6.06%
Other Postretirement - LKE	6.82%	6.85%
Rate of compensation increase		
Pension - PPL (U.S.)	3.93%	3.91%
Pension - PPL (U.K.)	4.00%	4.00%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.91%	3.86%
Other Postretirement - LKE	3.50%	3.50%

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2015, the health care cost trend rate for all plans was 6.8% for 2016, gradually declining to an ultimate trend rate of 5.0% in 2020.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2015, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Balance Sheet:					
Regulatory assets (a)	$ 809	$ 469	$ 340	$ 215	$ 125
Regulatory liabilities	24		24		24
Pension liabilities	1,415	183	299	55	46
Other postretirement and benefit liabilities	217	67	128	77	42
AOCI (pre-tax)	2,977		74		
Statement of Income:					
Defined benefits expense	$ 58	$ 15	$ 38	$ 12	$ 10
Increase (decrease) from prior year	12	1	14	3	5

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2015, the balances were $10 million for PPL and LKE, $6 million for LG&E and $4 million for KU. See Note 6 for additional information.

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

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

(a) Only impacts other postretirement benefits.

Actuarial assumption	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL				
Discount rate	$ 483	$ 388	$ 95	$ 42
Expected return on plan assets	n/a	n/a	n/a	27
Rate of compensation increase	65	54	11	12
Health care cost trend rate (a)	6	1	5	
PPL Electric				
Discount rate	56		56	5
Expected return on plan assets	n/a		n/a	4
Rate of compensation increase	6		6	2
Health care cost trend rate (a)	1		1	
LKE				
Discount rates	62	24	38	9
Expected return on plan assets	n/a	n/a	n/a	3
Rate of compensation increase	10	5	5	2
Health care cost trend rate (a)	5	1	4	
LG&E				
Discount rates	21	n/a	21	3
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	
Health care cost trend rate (a)	1	n/a	1	

Actuarial assumption	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
KU				
Discount rates	17	n/a	17	3
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	3	n/a	3	1
Health care cost trend rate (a)	3	n/a	3	

(a) Only impacts other postretirement benefits.

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

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

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

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

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

PPL elected to perform the two-step quantitative impairment test of goodwill for all its reporting units in the fourth quarter of 2015. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows include discount and growth rates, outcomes of future rate filings, projected operating and capital cash flows and the fair value of debt. Projected operating and capital cash flows is based on PPL's internal business plan, which assumes the occurrence of certain events in the future. Significant assumptions used in the market multiples include utility sector market performance and comparable transactions.

Goodwill was $3.6 billion at December 31, 2015, which consists of $2.9 billion related to the acquisition of WPD and $662 million related to the acquisition of LKE. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations for the most recent impairment tests performed as of October 1, 2015, did not require the second-step assessment and did not result in any impairment.

A high degree of judgment is required in developing estimates related to fair value conclusions. A decrease in the forecasted cash flows of 10%, an increase in the discount rate by 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for these reporting units.

Loss Accruals *(All Registrants)*

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future outcomes, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are consulted, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when new information becomes known, the contingency has been resolved and the actual loss is settled or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

- Actions or decisions by certain regulators could result in a better estimate of a previously recorded loss accrual.

Loss accruals are reviewed on a regular basis to assure that the recorded probable loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, business unit management and other parties.

See Notes 6 and 13 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

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

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. For LG&E and KU, costs of removal are collected in rates, and therefore the accretion and depreciation expenses related to an ARO are recorded as a regulatory asset, such that there is no earnings impact.

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

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

At December 31, 2015, the total recorded balances and information on the most significant recorded AROs were as follows.

			Most Significant AROs		
	Total ARO Recorded		Amount Recorded	% of Total	Description
PPL	$ 586	$	430	73	Ash ponds, landfills and natural gas mains
LKE	535		430	80	Ash ponds, landfills and natural gas mains
LG&E	175		102	58	Ash ponds, landfills and natural gas mains
KU	360		328	91	Ash ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2015, a 10% change to retirement cost would increase the ARO liabilities by $44 million. A 0.25% decrease in the discount rate would increase the ARO liabilities by $6 million and a 0.25% increase in the inflation rate would increase the ARO liabilities by $6 million. For PPL, there would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions. As noted above, these factors do not impact the Statements of Income of LKE, LG&E and KU.

Income Taxes *(All Registrants)*

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

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

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

At December 31, 2015, no significant changes in unrecognized tax benefits are projected over the next 12 months.

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

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

Regulatory Assets and Liabilities

(PPL)

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

(All Registrants)

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

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

At December 31, 2015, regulatory assets and regulatory liabilities were recorded as reflected in the table below. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

	PPL	PPL Electric	LKE	LG&E	KU
Regulatory assets	$ 1,781	$ 1,019	$ 762	$ 440	$ 322
Regulatory liabilities	1,090	135	955	444	511

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

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

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

	2015	2014
PPL Electric	$ 91	$ 113
LKE	147	167
LG&E	67	76
KU	80	91

Other Information *(All Registrants)*

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

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

Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PPL Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, PPL Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015, and our report dated February 19, 2016, expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
February 19, 2016

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(Millions of Dollars, except share data)

	2015	2014	2013
Operating Revenues	**$ 7,669**	$ 7,852	$ 7,263
Operating Expenses			
Operation			
Fuel	**863**	965	895
Energy purchases	**855**	924	856
Other operation and maintenance	**1,938**	1,856	1,810
Depreciation	**883**	923	843
Taxes, other than income	**299**	317	298
Total Operating Expenses	**4,838**	4,985	4,702
Operating Income	**2,831**	2,867	2,561
Other Income (Expense) - net	**108**	105	(55)
Interest Expense	**871**	843	778
Income from Continuing Operations Before Income Taxes	**2,068**	2,129	1,728
Income Taxes	**465**	692	360
Income from Continuing Operations After Income Taxes	**1,603**	1,437	1,368
Income (Loss) from Discontinued Operations (net of income taxes)	**(921)**	300	(238)
Net Income	**$ 682**	$ 1,737	$ 1,130
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:			
Basic	**$ 2.38**	$ 2.19	$ 2.24
Diluted	**$ 2.37**	$ 2.16	$ 2.12
Net Income Available to PPL Common Shareowners:			
Basic	**$ 1.01**	$ 2.64	$ 1.85
Diluted	**$ 1.01**	$ 2.61	$ 1.76
Dividends Declared Per Share of Common Stock	**$ 1.50**	$ 1.49	$ 1.47
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	**669,814**	653,504	608,983
Diluted	**672,586**	665,973	663,073

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

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

(Millions of Dollars)

	2015	2014	2013
Net income	**$ 682**	$ 1,737	$ 1,130
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of $1, ($8), $4	**(234)**	(275)	138
Available-for-sale securities, net of tax of ($9), ($39), ($72)	**8**	35	67
Qualifying derivatives, net of tax of $0, $23, ($41)	**26**	(10)	45
Defined benefit plans:			
Prior service costs, net of tax of $6, ($4), ($1)	**(9)**	5	2
Net actuarial gain (loss), net of tax of $67, $225, ($73)	**(366)**	(509)	71
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of $2, $7, $4	**(2)**	(6)	(6)
Qualifying derivatives, net of tax of ($15), $23, $80	**2**	(64)	(83)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0	**(1)**		
Defined benefit plans:			
Prior service costs, net of tax of $0, ($3), ($4)		4	6
Net actuarial loss, net of tax of ($46), ($34), ($49)	**146**	111	135
Total other comprehensive income (loss)	**(430)**	(709)	375
Comprehensive income	**$ 252**	$ 1,028	$ 1,505

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

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

(Millions of Dollars)

	2015	2014	2013
Cash Flows from Operating Activities			
Net income	**$ 682**	$ 1,737	$ 1,130
Loss (income) from discontinued operations (net of income taxes)	**921**	(300)	238
Income from continuing operations (net of income taxes)	**1,603**	1,437	1,368
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by (used in) operating activities - continuing operations			
Depreciation	**883**	923	843
Amortization	**59**	65	66
Defined benefit plans - expense	**56**	48	125
Deferred income taxes and investment tax credits	**428**	666	387
Unrealized (gains) losses on derivatives, and other hedging activities	**(77)**	(187)	56
Adjustment to WPD line loss accrual		65	45
Other	**17**	66	
Change in current assets and current liabilities			
Accounts receivable	**47**	(123)	(211)
Accounts payable	**(116)**	40	127
Unbilled revenues	**54**	22	(56)
Prepayments	**(23)**	87	39
Taxes payable	**(175)**	161	51
Uncertain tax positions	**(17)**		(112)
Other	**99**	23	(66)
Other operating activities			
Defined benefit plans - funding	**(499)**	(384)	(450)
Settlement of interest rate swaps	**(101)**		104
Other assets	**(19)**	9	11
Other liabilities	**53**	23	120
Net cash provided by (used in) operating activities - continuing operations	**2,272**	2,941	2,447
Net cash provided by (used in) operating activities - discontinued operations	**343**	462	409
Net cash provided by (used in) operating activities	**2,615**	3,403	2,856
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(3,533)**	(3,674)	(3,629)
Expenditures for intangible assets	**(37)**	(49)	(53)
Purchases of other investments		(120)	
Proceeds from the sale of other investments	**136**		
Net (increase) decrease in restricted cash and cash equivalents	**8**	19	2
Other investing activities	**(13)**	(2)	16
Net cash provided by (used in) investing activities - continuing operations	**(3,439)**	(3,826)	(3,664)
Net cash provided by (used in) investing activities - discontinued operations	**(149)**	497	(631)
Net cash provided by (used in) investing activities	**(3,588)**	(3,329)	(4,295)
Cash Flows from Financing Activities			
Issuance of long-term debt	**2,236**	296	2,038
Retirement of long-term debt	**(1,000)**	(237)	
Repurchase of common stock			(74)
Issuance of common stock	**203**	1,074	1,411
Payment of common stock dividends	**(1,004)**	(967)	(878)
Contract adjustment payments on Equity Units		(22)	(82)
Net increase (decrease) in short-term debt	**94**	147	405
Other financing activities	**(47)**	(29)	(67)
Net cash provided by (used in) financing activities - continuing operations	**482**	262	2,753
Net cash provided by (used in) financing activities - discontinued operations	**(546)**	(846)	47
Net cash distributions to parent from discontinued operations	**132**	1,167	(1,169)
Net cash provided by (used in) financing activities	**68**	583	1,631
Effect of Exchange Rates on Cash and Cash Equivalents	**(10)**	(8)	8
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	**352**	(113)	175
Net Increase (Decrease) in Cash and Cash Equivalents	**(563)**	536	375
Cash and Cash Equivalents at Beginning of Period	**1,399**	863	488
Cash and Cash Equivalents at End of Period	**$ 836**	$ 1,399	$ 863
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 822**	$ 959	$ 916
Income taxes - net	**$ 179**	$ 190	$ 128

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	**$ 836**	$ 1,399
Short-term investments		120
Accounts receivable (less reserve: 2015, $41; 2014, $44)		
Customer	**673**	737
Other	**59**	71
Unbilled revenues	**453**	517
Fuel, materials and supplies	**357**	381
Prepayments	**66**	75
Price risk management assets	**139**	79
Other current assets	**63**	55
Current assets of discontinued operations		2,592
Total Current Assets	**2,646**	6,026
Property, Plant and Equipment		
Regulated utility plant	**34,399**	30,568
Less: accumulated depreciation - regulated utility plant	**5,683**	5,361
Regulated utility plant, net	**28,716**	25,207
Non-regulated property, plant and equipment	**516**	592
Less: accumulated depreciation - non-regulated property, plant and equipment	**165**	162
Non-regulated property, plant and equipment, net	**351**	430
Construction work in progress	**1,315**	2,532
Property, Plant and Equipment, net	**30,382**	28,169
Other Noncurrent Assets		
Regulatory assets	**1,733**	1,562
Goodwill	**3,550**	3,667
Other intangibles	**679**	668
Other noncurrent assets	**311**	203
Noncurrent assets of discontinued operations		8,311
Total Other Noncurrent Assets	**6,273**	14,411
Total Assets	**$ 39,301**	$ 48,606

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

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

	2015	2014
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 916**	$ 836
Long-term debt due within one year	**485**	1,000
Accounts payable	**812**	995
Taxes	**85**	263
Interest	**303**	298
Dividends	**255**	249
Customer deposits	**326**	304
Regulatory liabilities	**145**	91
Other current liabilities	**549**	632
Current liabilities of discontinued operations		2,771
Total Current Liabilities	**3,876**	7,439
Long-term Debt	**18,563**	17,054
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,440**	3,102
Investment tax credits	**128**	132
Accrued pension obligations	**1,405**	1,457
Asset retirement obligations	**536**	324
Regulatory liabilities	**945**	992
Other deferred credits and noncurrent liabilities	**489**	525
Noncurrent liabilities of discontinued operations		3,953
Total Deferred Credits and Other Noncurrent Liabilities	**6,943**	10,485
Commitments and Contingent Liabilities (Notes 5, 6 and 13)		
Equity		
Common stock - $0.01 par value (a)	**7**	7
Additional paid-in capital	**9,687**	9,433
Earnings reinvested	**2,953**	6,462
Accumulated other comprehensive loss	**(2,728)**	(2,274)
Total Equity	**9,919**	13,628
Total Liabilities and Equity	**$ 39,301**	$ 48,606

(a) 780,000 shares authorized; 673,857 and 665,849 shares issued and outstanding at December 31, 2015 and 2014.

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

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

	PPL Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
December 31, 2012	581,944	$ 6	$ 6,936	$ 5,478	$ (1,940)	$ 18	$ 10,498
Common stock issued	50,807		1,437				1,437
Common stock repurchased	(2,430)		(74)				(74)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation			30				30
Net income				1,130			1,130
Dividends and dividend equivalents				(899)		(18)	(917)
Other comprehensive income (loss)					375		375
December 31, 2013	630,321	$ 6	$ 8,316	$ 5,709	$ (1,565)	$	$ 12,466
Common stock issued	35,528	$ 1	$ 1,089				$ 1,090
Stock-based compensation			28				28
Net income				$ 1,737			1,737
Dividends and dividend equivalents				(984)			(984)
Other comprehensive income (loss)					$ (709)		(709)
December 31, 2014	665,849	$ 7	$ 9,433	$ 6,462	$ (2,274)		$ 13,628
Common stock issued	8,008		$ 249				$ 249
Stock-based compensation			5				5
Net income				$ 682			682
Dividends and dividend equivalents				(1,010)			(1,010)
Distribution of PPL Energy Supply (Note 8)				(3,181)	$ (24)		(3,205)
Other comprehensive income (loss)					(430)		(430)
December 31, 2015	673,857	$ 7	$ 9,687	$ 2,953	$ (2,728)		$ 9,919

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

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

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

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

Business and Consolidation

(PPL)

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

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

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

(PPL and PPL Electric)

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

(PPL, LKE, LG&E and KU)

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

(PPL)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. PPL Energy Supply's assets and liabilities have been reclassified on PPL's Balance Sheet at December 31, 2014 to "Current assets of discontinued operations", "Noncurrent assets of discontinued operations", "Current liabilities of discontinued operations" and "Noncurrent liabilities of discontinued operations". These assets and liabilities were distributed and removed from PPL's Balance Sheet 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.

(All Registrants)

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

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

Regulation

(PPL)

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

(All Registrants)

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

Accounting Records *(All Registrants)*

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

(All Registrants)

Use of Estimates

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

Loss Accruals

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

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

Changes in Classification

The classification of certain amounts in the 2014 and 2013 financial statements have been changed to conform to the current presentation. These reclassifications did not affect the Registrants' net income or equity.

Earnings Per Share *(PPL)*

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

Price Risk Management

(All Registrants)

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

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities." See Note 17 to the Financial Statements for additional information.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. See Note 17 for more information. The accounting department provides the treasury department with guidelines on appropriate accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.

- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.

- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.

- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.

- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

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

(All Registrants)

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

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

(PPL and PPL Electric)

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

See Notes 16 and 17 for additional information on derivatives.

Revenue

Operating Revenues *(PPL)*

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

	2015	2014	2013
Domestic electric and gas revenues (a)	$ 5,239	$ 5,209	$ 4,842
U.K. operating revenues (b)	2,410	2,621	2,403
Domestic - other	20	22	18
Total	$ 7,669	$ 7,852	$ 7,263

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

Revenue Recognition

(All Registrants)

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

(PPL)

WPD is currently operating under RIIO - ED1, which commenced on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn during the price control period, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue, incentive adjustments, adjustments for over or under-recovery and adjustments related to the DPCR4 line loss close out.

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

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

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set in 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment. The projected TRU for the 2015/16 regulatory year is a $45 million reduction to revenue and will reduce base demand revenue in calendar years 2017 and 2018 by $30 million and $15 million, respectively.

- Annual Iteration Process - The RIIO-ED1 price control period also includes an Annual Iteration Process (AIP). This will allow future base demand revenues agreed with the regulator as part of the price control review to be updated during the price control period for financial adjustments including tax, pensions and cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment. The MOD provided by Ofgem in November 2016 will include the TIM for the 2015/16 regulatory year as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This projected MOD of $11 million will reduce base demand revenue for calendar years 2017 and 2018 by $5 million and $6 million, respectively.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, under applicable GAAP, liabilities for these adjustments have not been recorded.

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

- Incentives - Ofgem has established incentive mechanisms to provide significant opportunities to enhance overall returns by improving network efficiency, reliability and customer service. Based on applicable GAAP, incentive revenues are not recorded as assets and are included in revenues when they are billed to customers.

- DPCR4 Line Loss Adjustment - For regulatory years 2015/16 through 2018/19 allowed revenue will also be reduced to reflect Ofgem's final decision on the DPCR4 line loss incentives and penalties mechanism. WPD has a liability recorded related to this future revenue reduction and, therefore, this will not impact future earnings. See Note 6 to the Financial Statements for additional information.

- Correction Factor - During the price control period, WPD's revenue is decoupled from volume and WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising from 2014/15 onwards and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment will occur in 2016/17. In 2016/17 under this mechanism, WPD will recover the £5 per residential network customer reduction given through reduced tariffs in 2014/15 (approximately $56 million) as that amount is currently considered an under-recovery.

Under applicable GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. K-factor is measured as of the end of the regulatory year, March 31. While WPD estimates over-recoveries and records a liability when it is probable that there will be an over-recovered position at the end of the regulatory-year, weather-related volume changes and other factors such as sales mix can affect the over or under-recovery between the end of PPL's calendar year and the end of the regulatory year. .

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition.

(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 2015, 2014 and 2013, PPL Electric purchased $1.3 billion, $1.1 billion and $985 million of accounts receivable from unaffiliated third parties. During 2015, 2014 and 2013, PPL Electric purchased $146 million, $336 million and $294 million of accounts receivable from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for 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 included as purchases from an unaffiliated third party.

Allowance for Doubtful Accounts *(All Registrants)*

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

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

The changes in the allowance for doubtful accounts were:

		Additions				
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts		Deductions (a)	Balance at End of Period
PPL						
2015	$ 44	$ 49	$ (2)		$ 50	$ 41
2014	43	49			48	44
2013	41	38	4	(b)	40	43
PPL Electric						
2015	$ 17	$ 39			$ 40	$ 16
2014	18	34			35	17
2013	18	32			32	18
LKE						
2015	$ 25	$ 9	$ (2)		$ 9	$ 23
2014	22	14			11	25
2013	19	4	4	(b)	5	22
LG&E						
2015	$ 2	$ 2			$ 3	$ 1
2014	2	5	$ (1)	(b)	4	2
2013	1	2	1	(b)	2	2
KU						
2015	$ 2	$ 5			$ 5	$ 2
2014	4	8	$ (3)	(b)	7	2
2013	2	3	3	(b)	4	4

(a) Primarily related to uncollectible accounts written off.
(b) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash

Cash Equivalents *(All Registrants)*

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

Restricted Cash and Cash Equivalents *(PPL and PPL Electric)*

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

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

	PPL		PPL Electric	
	2015	2014	2015	2014
Low carbon network fund (a)	$ 22	$ 19		
Other	11	12	$ 2	$ 3
	$ 33	$ 31	$ 2	$ 3

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

Fair Value Measurements *(All Registrants)*

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

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

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

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

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

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

Investments

(All Registrants)

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

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Short-term investments" ("Other current assets" if not significant) on the Balance Sheets.

Cost Method Investment *(PPL, LKE, LG&E and KU)*

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

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

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

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

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

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was as follows.

	PPL	
2015	$	11
2014		16
2013		15

Depreciation

(All Registrants)

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

The following percentages are the weighted-average annual rates of depreciation at December 31.

	2015				
	PPL	PPL Electric	LKE	LG&E	KU
Regulated utility plant	2.57	2.46	3.69	3.65	3.71
	2014				
	PPL	PPL Electric	LKE	LG&E	KU
Regulated utility plant	2.92	2.46	3.80	4.05	3.63

(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 GAAP reporting of depreciation expense. For 2015, this change in useful lives resulted in lower depreciation expense of $84 million ($66 million after-tax or $0.10 per share).

(All Registrants)

Goodwill and Other Intangible Assets

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

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

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

PPL, LKE, LG&E and KU account for emission allowances as intangible assets. LG&E and KU are allocated emission allowances by states based on their generation facilities' historical emissions experience, and have purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Fuel" on the Statements of Income. Gains and losses on the sale of emission allowances are included in "Other operation and maintenance" on the Statements of Income.

Asset Impairment (Excluding Investments)

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

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

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

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

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

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

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to bypass step zero and quantitatively tested the goodwill of these reporting units for impairment in the fourth quarter of 2015 and no impairment was recognized.

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

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. The accretion and depreciation expenses recorded by LG&E and KU are recorded as a regulatory asset, such that there is no earnings impact.

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

Compensation and Benefits

Defined Benefits *(All Registrants)*

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

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

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

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

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

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

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

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

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

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

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

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

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

See Note 5 for additional discussion regarding income taxes including management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. taxes on WPD's undistributed earnings.

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

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

The income tax provision for PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. At December 31, the following intercompany tax receivables (payables) were recorded.

	2015	2014
PPL Electric	$ 56	$ (25)
LKE	(10)	136
LG&E	4	74
KU	(5)	60

Taxes, Other Than Income *(All Registrants)*

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

Other

(All Registrants)

Leases

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

Fuel, Materials and Supplies

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

(PPL, LKE, LG&E and KU)

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

	PPL		LKE		LG&E		KU	
	2015	2014	2015	2014	2015	2014	2015	2014
Fuel	$ 168	$ 166	$ 168	$ 166	$ 71	$ 66	$ 97	$ 100
Natural gas stored underground (a)	42	54	42	54	42	54		
Materials and supplies	147	161	88	91	38	42	50	49
Total	$ 357	$ 381	$ 298	$ 311	$ 151	$ 162	$ 147	$ 149

(a) The majority of LKE's and LG&E's natural gas stored underground is held to serve retail customers.

Guarantees *(All Registrants)*

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

Treasury Stock *(PPL and PPL Electric)*

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions *(PPL)*

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

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

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.

Fair Value Measurement for Investments in Certain Entities that Calculate Net Asset Value per Share

Effective December 31, 2015, the Registrants retrospectively adopted accounting guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share and the requirement to make certain disclosures for all investments that are eligible to be measured using net asset value per share.

The adoption of this guidance resulted in the Registrants no longer categorizing investments for which fair value is measured using net asset value per share in the fair value hierarchy, and did not have a significant impact on the Registrants. See Note 11 for additional information.

Presentation of Debt Issuance Costs

Effective December 31, 2015, the Registrants retrospectively adopted accounting guidance to simplify the presentation of debt issuance costs. The guidance requires certain debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the associated debt liability.

The adoption of this guidance required the Registrants to reclassify debt issuance costs not associated with a line of credit from noncurrent assets to Long-term debt, and did not have a significant impact on the Registrants. See Note 7 for additional information.

Balance Sheet Classification of Deferred Taxes

Effective October 1, 2015, the Registrants retrospectively adopted accounting guidance to simplify the presentation of deferred taxes which requires that deferred tax assets and deferred tax liabilities be classified as noncurrent on the balance sheet.

The adoption of this guidance required the Registrants to reclassify deferred tax assets and deferred tax liabilities from current to noncurrent on the balance sheet, and did not have a significant impact on the Registrants. The following table presents the amounts reclassified from current deferred tax assets and liabilities to noncurrent deferred tax liabilities on the balance sheets as of December 31, 2014.

	Assets	Liabilities
PPL	$ 125	
PPL Electric	58	
LKE	16	
KU	2	
Discontinued Operations	8	$ 4

2. Segment and Related Information

(PPL)

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

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

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

The Pennsylvania Regulated segment consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

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

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

Financial data for the segments are:

Income Statement Data	**2015**	**2014**	**2013**
Operating Revenues from external customers (a)			
U.K. Regulated	$ 2,410	$ 2,621	$ 2,403
Kentucky Regulated	3,115	3,168	2,976
Pennsylvania Regulated	2,124	2,044	1,870
Corporate and Other	20	19	14
Total	$ 7,669	$ 7,852	$ 7,263
Depreciation			
U.K. Regulated	$ 242	$ 337	$ 300
Kentucky Regulated	382	354	334
Pennsylvania Regulated	214	185	178
Corporate and Other	45	47	31
Total	$ 883	$ 923	$ 843

Income Statement Data	2015	2014	2013
Amortization (b)			
U.K. Regulated	$ 6	$ 17	$ 19
Kentucky Regulated	27	25	22
Pennsylvania Regulated	26	19	19
Corporate and Other		4	6
Total	$ 59	$ 65	$ 66
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	$ (88)	$ (199)	$ 44
Kentucky Regulated	11	12	12
Total	$ (77)	$ (187)	$ 56
Interest Expense			
U.K. Regulated	$ 417	$ 461	$ 425
Kentucky Regulated	232	219	212
Pennsylvania Regulated	130	122	108
Corporate and Other	92	41	33
Total	$ 871	$ 843	$ 778
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	$ 1,249	$ 1,311	$ 993
Kentucky Regulated	547	501	484
Pennsylvania Regulated	416	423	317
Corporate and Other (d)	(144)	(106)	(66)
Total	$ 2,068	$ 2,129	$ 1,728
Income Taxes (e)			
U.K. Regulated	$ 128	$ 329	$ 71
Kentucky Regulated	221	189	179
Pennsylvania Regulated	164	160	108
Corporate and Other (d)	(48)	14	2
Total	$ 465	$ 692	$ 360
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	$ 45	$ 94	$ (45)
Kentucky Regulated	236	449	254
Pennsylvania Regulated	220	87	127
Corporate and Other (d)	(73)	36	51
Total	$ 428	$ 666	$ 387
Net Income			
U.K. Regulated	$ 1,121	$ 982	$ 922
Kentucky Regulated	326	312	307
Pennsylvania Regulated	252	263	209
Corporate and Other (d)	(96)	(120)	(68)
Discontinued Operations (g)	(921)	300	(240)
Total	$ 682	$ 1,737	$ 1,130

Cash Flow Data	2015	2014	2013
Expenditures for long-lived assets			
U.K. Regulated	$ 1,242	$ 1,438	$ 1,280
Kentucky Regulated	1,210	1,262	1,434
Pennsylvania Regulated	1,107	957	942
Corporate and Other	11	66	26
Total	$ 3,570	$ 3,723	$ 3,682

	As of December 31,	
Balance Sheet Data	2015	2014
Total Assets		
U.K. Regulated	$ 16,669	$ 15,944
Kentucky Regulated	13,756	13,022
Pennsylvania Regulated	8,511	7,706
Corporate and Other (h)	365	909
Discontinued Operations		11,025
Total	$ 39,301	$ 48,606

	2015	2014	2013
Geographic Data			
Revenues from external customers			
U.K.	$ 2,410	$ 2,621	$ 2,403
U.S.	5,259	5,231	4,860
Total	$ 7,669	$ 7,852	$ 7,263

	As of December 31, 2015	As of December 31, 2014
Long-Lived Assets		
U.K.	$ 12,487	$ 11,942
U.S.	18,569	16,890
Total	$ 31,056	$ 28,832

(a) See Note 1 for additional information on Operating Revenues.
(b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
(c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.
(d) 2015 and 2014 include certain costs related to the spinoff of PPL Energy Supply, including deferred income tax expense, transition costs and separation benefits for PPL Services employees. See Note 8 for additional information.
(e) Represents both current and deferred income taxes, including investment tax credits.
(f) Represents a non-cash expense item that is also included in "Income Taxes."
(g) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply and five months of Supply segment earnings. 2014 includes a gain of $237 million ($137 million after-tax) on the sale of the Montana hydroelectric generating facilities. 2013 includes a charge of $697 million ($413 million after-tax) for the termination of the lease of the Colstrip coal-fired electric generating facility. See Note 8 for additional information on these transactions.
(h) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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

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

3. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2015, 2014 or 2013.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2015, 2014 or 2013. Prior to October 31, 2013, PPL Electric was authorized to issue up to 10 million shares of preference stock.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2015, 2014 or 2013.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2015, 2014 or 2013.

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 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 December 31 used in the EPS calculation are:

	2015	2014	2013
Income (Numerator)			
Income from continuing operations after income taxes	$ 1,603	$ 1,437	$ 1,368
Less amounts allocated to participating securities	6	7	7
Income from continuing operations after income taxes available to PPL common shareowners - Basic	1,597	1,430	1,361
Plus interest charges (net of tax) related to Equity Units (a)		9	44
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	$ 1,597	$ 1,439	$ 1,405
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	$ (921)	$ 300	$ (238)
Net income	$ 682	$ 1,737	$ 1,130
Less amounts allocated to participating securities	2	9	6
Net income available to PPL common shareowners - Basic	680	1,728	1,124
Plus interest charges (net of tax) related to Equity Units (a)		9	44
Net income available to PPL common shareowners - Diluted	$ 680	$ 1,737	$ 1,168
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	669,814	653,504	608,983
Add incremental non-participating securities:			
Share-based payment awards (b)	2,772	1,910	1,062
Equity Units (a)		10,559	52,568
Forward sale agreements and purchase contracts (b)			460
Weighted-average shares - Diluted EPS	672,586	665,973	663,073
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 2.38	$ 2.19	$ 2.24
Income (loss) from discontinued operations (net of income taxes)	(1.37)	0.45	(0.39)
Net Income	$ 1.01	$ 2.64	$ 1.85
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 2.37	$ 2.16	$ 2.12
Income (loss) from discontinued operations (net of income taxes)	(1.36)	0.45	(0.36)
Net Income	$ 1.01	$ 2.61	$ 1.76

(a) In 2014 and 2013, the If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the Equity Units, including the issuance of PPL common stock to settle the Purchase contracts.
(b) The Treasury Stock Method was applied to non-participating share-based payment awards and forward sale agreements.

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

	2015
Stock-based compensation plans (a)	4,853
DRIP	1,728

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

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

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

	2015	2014	2013
Stock options	1,087	1,816	4,446
Performance units	36	5	55
Restricted stock units		31	29

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following.

	2015	2014	2013
Domestic income	$ 968	$ 922	$ 669
Foreign income	1,100	1,207	1,059
Total	$ 2,068	$ 2,129	$ 1,728

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows.

	2015	2014
Deferred Tax Assets		
Deferred investment tax credits	$ 50	$ 52
Regulatory obligations	123	131
Accrued pension costs	217	200
Federal loss carryforwards (a)	587	129
State loss carryforwards (b)	319	225
Federal and state tax credit carryforwards	201	196
Foreign capital loss carryforwards	387	446
Foreign loss carryforwards	4	6
Foreign - pensions	171	182
Foreign - regulatory obligations	12	23
Foreign - other	8	11
Contributions in aid of construction	139	138
Domestic - other	209	194
Unrealized losses on qualifying derivatives	15	46
Valuation allowances (b)	(662)	(622)
Total deferred tax assets	1,780	1,357
Deferred Tax Liabilities		
Domestic plant - net	3,875	3,079
Taxes recoverable through future rates	162	156
Other regulatory assets	332	322
Reacquired debt costs	28	31
Foreign plant - net	777	854
Domestic - other	24	17
Total deferred tax liabilities	5,198	4,459
Net deferred tax liability	$ 3,418	$ 3,102

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to the provision to return adjustments.

(b) Includes $77 million of deferred tax assets related to state loss carryforwards and related valuation allowances previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remain with PPL after the spinoff.

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, $22 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheet.

At December 31, PPL had the following loss and tax credit carryforwards.

		2015	Expiration
Loss carryforwards			
Federal net operating losses (a)	$	1,660	2029-2035
Federal charitable contributions		15	2020
State net operating losses (a) (b)		5,269	2017-2035
State charitable contributions		34	2016-2020
Foreign net operating losses (c)		21	Indefinite
Foreign capital losses (d)		2,152	Indefinite
Credit carryforwards			
Federal investment tax credit		125	2025-2028
Federal alternative minimum tax credit		40	Indefinite
Federal - other (e)		29	2016-2035
State - other		5	2022

(a) Includes an insignificant amount of federal and state net operating loss carryforwards from excess tax deductions related to stock compensation for which a tax benefit will be recorded in Equity when realized.
(b) A valuation allowance of $254 million has been recorded against the deferred tax assets for these losses.
(c) A valuation allowance of $4 million has been recorded against the deferred tax assets for these losses.
(d) A valuation allowance of $387 million has been recorded against the deferred tax assets for these losses.
(e) A valuation allowance of $12 million has been recorded against the deferred tax assets for these credits.

State capital loss and foreign tax credit carryforwards were insignificant at December 31, 2015.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows.

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
2015	$ 622	$ 24	$ 77 (b)	$ 61 (a)	$ 662
2014	585	57	6	26	622
2013	632	25		72 (a)	585

(a) The reductions of the U.K. statutory income tax rates in 2015 and 2013 resulted in $44 million and $67 million in reductions in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts 2015 and 2013.
(b) Valuation allowance related to deferred tax assets previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remain with PPL after the spinoff.

PPL Global does not record U.S. income taxes on the undistributed earnings of WPD, with the exception of certain financing entities, as management has determined that the earnings are indefinitely reinvested. Historically, dividends paid by WPD have been distributions from current year's earnings. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings, and WPD would have to issue debt or access credit facilities to fund any distributions in excess of current earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate distributions from WPD in excess of some portion of future WPD earnings. The cumulative undistributed earnings are included in "Earnings Reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2015 and 2014 were $4.6 billion and $3.7 billion, respectively. If the WPD undistributed earnings were remitted as dividends, PPL Global could be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2015	2014	2013
Income Tax Expense (Benefit)			
Current - Federal	$ (26)	$ 18	$ (102)
Current - State	25	26	
Current - Foreign	89	152	181
Total Current Expense	88	196	79
Deferred - Federal	699	299	259
Deferred - State	68	120	84
Deferred - Foreign	41	96	(53)
Total Deferred Expense, excluding operating loss carryforwards	808	515	290
Investment tax credit, net - Federal	(4)	(5)	(5)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (a)	(396)	8	14
Deferred - State	(31)	(22)	(18)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(427)	(14)	(4)
Total income taxes from continuing operations	$ 465	$ 692	$ 360
Total income tax expense - Federal	$ 273	$ 320	$ 166
Total income tax expense - State	62	124	66
Total income tax expense - Foreign	130	248	128
Total income taxes from continuing operations	$ 465	$ 692	$ 360

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to provision to return adjustments.

In the table above, the following income tax expense (benefits) are excluded from income taxes from continuing operations.

	2015	2014	2013
Discontinued operations - PPL Energy Supply Segment	$ (30)	$ 198	$ (180)
Stock-based compensation recorded to Additional Paid-in Capital		(4)	(2)
Valuation allowance on state deferred taxes related to issuance costs of Purchase Contracts recorded to Additional Paid-in Capital			(2)
Other comprehensive income	(2)	(190)	159
Valuation allowance on state deferred taxes recorded to other comprehensive income	(4)		(7)
Total	$ (36)	$ 4	$ (32)

	2015	2014	2013
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 724	$ 745	$ 605
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	31	28	17
Valuation allowance adjustments (a)	24	55	24
Impact of lower U.K. income tax rates (b)	(176)	(180)	(144)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	8	63	21
Federal and state tax reserves adjustments (d)	(22)	(1)	(49)
Impact of the U.K. Finance Acts on deferred tax balances (b)	(91)	(1)	(97)
Depreciation not normalized	(5)	(7)	(8)
State deferred tax rate change (e)		(1)	15
Interest benefit on U.K. financing entities	(20)	(5)	(7)
Other	(8)	(4)	(17)
Total increase (decrease)	(259)	(53)	(245)
Total income taxes from continuing operations	$ 465	$ 692	$ 360
Effective income tax rate	22.5%	32.5%	20.8%

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

As a result of the PPL Energy Supply spinoff announcement, PPL recorded $50 million of deferred income tax expense during 2014 to adjust the valuation allowance on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.

During 2013, PPL recorded $23 million of state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income at PPL Energy Supply over the remaining carryforward period of Pennsylvania net operating losses.

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

The U.K. Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2013 related to both rate decreases.

(c) During 2015, PPL recorded lower income taxes primarily attributable to a decrease in taxable dividends.

During 2014, PPL recorded $47 million of income tax expense primarily attributable to taxable dividends.

During 2013, PPL recorded $28 million of income tax expense resulting from increased taxable dividends offset by a $19 million income tax benefit associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

(d) In 2015, PPL recorded a $12 million tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

In May 2013, the Supreme Court ruled that the U.K. Windfall Profits Tax (WPT) imposed on privatized utilities, including WPD, is a creditable tax for U.S. federal income tax purposes. As a result of the Supreme Court ruling, PPL recorded a tax benefit of $44 million during 2013, of which $19 million relates to interest.

In 2013, PPL recorded a federal and state income tax reserve benefit of $7 million related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization was zero.

(e) During each period, PPL recorded adjustments related to its December 31 state deferred tax liabilities as a result of annual changes in state apportionment and the impact on the future estimated state income tax rate.

	2015	2014	2013
Taxes, other than income			
State gross receipts (a)	$ 89	$ 102	$ 98
Foreign property	148	157	147
Domestic Other	62	58	53
Total	$ 299	$ 317	$ 298

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows.

	2015	2014
Deferred Tax Assets		
Accrued pension costs	$ 92	$ 85
Contributions in aid of construction	111	110
Regulatory obligations	56	39
State loss carryforwards	27	30
Federal loss carryforwards (a)	146	51
Other	87	54
Total deferred tax assets	519	369
Deferred Tax Liabilities		
Electric utility plant - net	1,803	1,453
Taxes recoverable through future rates	135	132
Reacquired debt costs	18	20
Other regulatory assets	213	173
Other	13	16
Total deferred tax liabilities	2,182	1,794
Net deferred tax liability	$ 1,663	$ 1,425

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to the provision to return adjustments.

At December 31, PPL Electric had the following loss carryforwards.

	2015	Expiration
Loss carryforwards		
Federal net operating losses	$ 411	2031-2035
Federal charitable contributions	3	2020
State net operating losses	410	2030-2032
State charitable contributions	13	2016-2020

Credit carryforwards were insignificant at December 31, 2015.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2015	2014	2013
Income Tax Expense (Benefit)			
Current - Federal	$ (80)	$ 60	$ (15)
Current - State	23	15	(4)
Total Current Expense (Benefit)	(57)	75	(19)
Deferred - Federal	287	70	109
Deferred - State	12	16	16
Total Deferred Expense, excluding operating loss carryforwards	299	86	125
Investment tax credit, net - Federal		(1)	(1)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(75)		4
Deferred - State	(3)		(1)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(78)		3
Total income tax expense	$ 164	$ 160	$ 108
Total income tax expense - Federal	$ 132	$ 129	$ 97
Total income tax expense - State	32	31	11
Total income tax expense	$ 164	$ 160	$ 108

	2015	2014	2013
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 146	$ 148	$ 111
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	25	22	16
Federal and state tax reserves adjustments (a)	2	(1)	(9)
Federal and state income tax return adjustments	(2)	1	(1)
Depreciation not normalized	(4)	(6)	(6)
Other	(3)	(4)	(3)
Total increase (decrease)	18	12	(3)
Total income tax expense	$ 164	$ 160	$ 108
Effective income tax rate	39.4%	37.8%	34.1%

(a) PPL Electric recorded a tax benefit of $7 million during 2013 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization was zero.

	2015	2014	2013
Taxes, other than income			
State gross receipts (a)	$ 89	$ 102	$ 98
Property and other	5	5	5
Total	$ 94	$ 107	$ 103

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows.

	2015	2014
Deferred Tax Assets		
Federal loss carryforwards (a)	$ 280	$ 46
State loss carryforwards	35	36
Tax credit carryforwards	181	182
Regulatory liabilities	66	92
Accrued pension costs	53	53
Income taxes due to customers	17	20
Deferred investment tax credits	50	51
Derivative liability	18	45
Other	55	44
Valuation allowances	(12)	
Total deferred tax assets	743	569
Deferred Tax Liabilities		
Plant - net	2,076	1,639
Regulatory assets	119	143
Other	11	12
Total deferred tax liabilities	2,206	1,794
Net deferred tax liability	$ 1,463	$ 1,225

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to the provision to return adjustments.

LKE expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, LKE had the following loss and tax credit carryforwards.

	2015	Expiration
Loss carryforwards		
Federal net operating losses	$ 801	2029-2035
State net operating losses	934	2028-2035
State capital losses	1	2016
Credit carryforwards		
Federal investment tax credit	125	2025-2028
Federal alternative minimum tax credit	28	Indefinite
Federal - other	27	2016-2035
State - other	5	2022

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2015		$ 12 (a)		$ 12
2014	$ 4		$ 4 (b)	
2013	5		1 (b)	4

(a) Represents tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.
(b) Primarily related to the expiration of state capital loss carryforwards.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

		2015		2014		2013
Income Tax Expense (Benefit)						
Current - Federal	$	2	$	(247)	$	(59)
Current - State		1		8		10
Total Current Expense (Benefit)		3		(239)		(49)
Deferred - Federal		405		437		244
Deferred - State		32		23		20
Total Deferred Expense, excluding benefits of operating loss carryforwards		437		460		264
Investment tax credit, net - Federal		(3)		(4)		(4)
Tax benefit of operating loss carryforwards						
Deferred - Federal		(198)		(8)		(4)
Deferred - State						(1)
Total Tax Benefit of Operating Loss Carryforwards		(198)		(8)		(5)
Total income tax expense from continuing operations (a)	$	239	$	209	$	206
Total income tax expense - Federal	$	206	$	178	$	177
Total income tax expense - State		33		31		29
Total income tax expense from continuing operations (a)	$	239	$	209	$	206

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of less than $1 million in 2015 and 2014, and $1 million in 2013. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of less than $(1) million in 2015, $(36) million in 2014 and $18 million in 2013.

		2015		2014		2013
Reconciliation of Income Taxes						
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$	211	$	194	$	193
Increase (decrease) due to:						
State income taxes, net of federal income tax benefit		22		20		20
Amortization of investment tax credit		(3)		(4)		(4)
Valuation allowance adjustment (a)		12				
Other		(3)		(1)		(3)
Total increase (decrease)		28		15		13
Total income tax expense from continuing operations	$	239	$	209	$	206
Effective income tax rate		39.6%		37.8%		37.4%

(a) Represents a valuation allowance against tax credits expiring from 2016 through 2020 that are more likely than not to expire before being utilized.

		2015		2014		2013
Taxes, other than income						
Property and other	$	57	$	52	$	48
Total	$	57	$	52	$	48

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows.

		2015		2014
Deferred Tax Assets				
Federal loss carryforwards (a)	$	76		
Regulatory liabilities		38	$	51
Deferred investment tax credits		13		14
Income taxes due to customers		17		18
Derivative liability		18		32
Other		15		9
Total deferred tax assets		177		124

	2015	2014
Deferred Tax Liabilities		
Plant - net	896	698
Regulatory assets	75	90
Accrued pension costs	28	28
Other	7	8
Total deferred tax liabilities	1,006	824
Net deferred tax liability	$ 829	$ 700

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2015, LG&E had $218 million of federal net operating loss carryforwards that expire in 2035, $1 million of federal credit carryforwards that expire from 2031 to 2035 and $2 million of state credit carryforwards that expire in 2022.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2015	2014	2013
Income Tax Expense (Benefit)			
Current - Federal	$ (15)	$ (25)	$ 52
Current - State	3	10	16
Total Current Expense (Benefit)	(12)	(15)	68
Deferred - Federal	190	114	33
Deferred - State	13	6	(2)
Total Deferred Expense, excluding benefits of operating loss carryforwards	203	120	31
Investment tax credit, net - Federal	(1)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(76)		(3)
Total Tax Benefit of Operating Loss Carryforwards	(76)		(3)
Total income tax expense	$ 114	$ 103	$ 94
Total income tax expense - Federal	$ 98	$ 87	$ 80
Total income tax expense - State	16	16	14
Total income tax expense	$ 114	$ 103	$ 94

	2015	2014	2013
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 105	$ 95	$ 90
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	11	10	10
Amortization of investment tax credit	(1)	(2)	(2)
Other	(1)		(4)
Total increase (decrease)	9	8	4
Total income tax expense	$ 114	$ 103	$ 94
Effective income tax rate	38.1%	37.9%	36.6%

	2015	2014	2013
Taxes, other than income			
Property and other	$ 28	$ 25	$ 24
Total	$ 28	$ 25	$ 24

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows.

	2015	2014
Deferred Tax Assets		
Federal loss carryforwards (a)	$ 97	
Regulatory liabilities	28	$ 41
Deferred investment tax credits	36	37
Income taxes due to customers		2
Derivative liability		13
Other	7	7
Total deferred tax assets	168	100
Deferred Tax Liabilities		
Plant - net	1,164	922
Regulatory assets	44	53
Other	6	7
Total deferred tax liabilities	1,214	982
Net deferred tax liability	$ 1,046	$ 882

(a) Increase in Federal loss carryforwards primarily relates to the extension of bonus depreciation.

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2015, KU had $279 million of federal net operating loss carryforwards that expire in 2035 and $2 million of state credit carryforwards that expire in 2022.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2015	2014	2013
Income Tax Expense (Benefit)			
Current - Federal	$ (21)	$ (95)	$ 51
Current - State	1	6	12
Total Current Expense (Benefit)	(20)	(89)	63
Deferred - Federal	240	212	66
Deferred - State	19	14	8
Total Deferred Expense, excluding benefits of operating loss carryforwards	259	226	74
Investment tax credit, net - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(97)		(3)
Total Tax Benefit of Operating Loss Carryforwards	(97)		(3)
Total income tax expense (a)	$ 140	$ 135	$ 132
Total income tax expense - Federal	$ 120	$ 115	$ 112
Total income tax expense - State	20	20	20
Total income tax expense (a)	$ 140	$ 135	$ 132

(a) Excludes deferred federal and state tax expense (benefit) recorded to OCI of less than $(1) million in 2015, 2014 and 2013.

	2015	2014	2013
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 131	$ 124	$ 126
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	13	13	14
Amortization of investment tax credit	(2)	(2)	(2)
Other	(2)		(6)
Total increase (decrease)	9	11	6
Total income tax expense	$ 140	$ 135	$ 132
Effective income tax rate	37.4%	38.0%	36.7%

	2015	2014	2013
Taxes, other than income			
Property and other	$ 29	$ 27	$ 24
Total	$ 29	$ 27	$ 24

Unrecognized Tax Benefits *(All Registrants)*

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2015, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2011 and prior	2011 and prior	2011 and prior	2011 and prior	2011 and prior
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2010 and prior		2010 and prior	2010 and prior	2010 and prior
U.K. (foreign)	2012 and prior				

Other *(PPL)*

In 2015, PPL recorded a tax benefit of $24 million, related to the settlement of the IRS audit for tax years 1998-2011. Of this amount, $12 million is reflected in Income from Continuing Operations After Income Taxes.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date.

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC, VSCC and TRA.

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

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect the original contracted prices for these contracts.

(PPL, LKE and KU)

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

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31.

	PPL		PPL Electric	
	2015	2014	2015	2014
Current Regulatory Assets:				
Environmental cost recovery	$ 24	$ 5		
Gas supply clause	1	15		
Transmission service charge	10	6	$ 10	$ 6
Other	13	11	3	6
Total current regulatory assets (a)	$ 48	$ 37	$ 13	$ 12
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 809	$ 720	$ 469	$ 372
Taxes recoverable through future rates	326	316	326	316
Storm costs	93	124	30	46
Unamortized loss on debt	68	77	42	49
Interest rate swaps	141	122		
Accumulated cost of removal of utility plant	137	114	137	114
AROs	143	79		
Other	16	10	2	
Total noncurrent regulatory assets	$ 1,733	$ 1,562	$ 1,006	$ 897
Current Regulatory Liabilities:				
Generation supply charge	$ 41	$ 28	$ 41	$ 28
Demand side management	8	2		
Gas supply clause	6	6		
Transmission formula rate	48	42	48	42
Fuel adjustment clause	14			
Storm damage expense	16	3	16	3
Other	12	10	8	3
Total current regulatory liabilities	$ 145	$ 91	$ 113	$ 76
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 691	$ 693		
Coal contracts (b)	17	59		
Power purchase agreement - OVEC (b)	83	92		
Net deferred tax assets	23	26		
Act 129 compliance rider	22	18	$ 22	$ 18
Defined benefit plans	24	16		
Interest rate swaps	82	84		
Other	3	4		
Total noncurrent regulatory liabilities	$ 945	$ 992	$ 22	$ 18

	LKE		LG&E		KU	
	2015	2014	2015	2014	2015	2014
Current Regulatory Assets:						
Environmental cost recovery	$ 24	$ 5	$ 13	$ 4	$ 11	$ 1
Gas supply clause	1	15	1	15		
Fuel adjustment clause		4		2		2
Gas line tracker	1		1			
Other	9	1	1		8	1
Total current regulatory assets	$ 35	$ 25	$ 16	$ 21	$ 19	$ 4
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 340	$ 348	$ 215	$ 215	$ 125	$ 133
Storm costs	63	78	35	43	28	35
Unamortized loss on debt	26	28	17	18	9	10
Interest rate swaps	141	122	98	89	43	33
AROs	143	79	57	28	86	51
Plant retirement costs	6				6	
Other	8	10	2	4	6	6
Total noncurrent regulatory assets	$ 727	$ 665	$ 424	$ 397	$ 303	$ 268
Current Regulatory Liabilities:						
Demand side management	$ 8	$ 2	$ 4	$ 1	$ 4	$ 1
Gas supply clause	6	6	6	6		
Fuel adjustment clause	14		2		12	
Gas line tracker		3		3		
Other	4	4	1		3	4
Total current regulatory liabilities	$ 32	$ 15	$ 13	$ 10	$ 19	$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 691	$ 693	$ 301	$ 302	$ 390	$ 391
Coal contracts (b)	17	59	7	25	10	34
Power purchase agreement - OVEC (b)	83	92	57	63	26	29
Net deferred tax assets	23	26	23	24		2
Defined benefit plans	24	16			24	16
Interest rate swaps	82	84	41	42	41	42
Other	3	4	2	2	1	2
Total noncurrent regulatory liabilities	$ 923	$ 974	$ 431	$ 458	$ 492	$ 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.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent the portion of unrecognized transition obligation, prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of $46 million for PPL, $18 million for PPL Electric, $28 million for LKE, $19 million for LG&E and $9 million for KU are expected to be amortized into net periodic defined benefit costs in 2016 in accordance with PPL's, PPL Electric's, LKE's, LG&E's and KU's pension accounting policy.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2015, the balances were $10 million for PPL and LKE, $6 million for LG&E and $4 million for KU. Of the costs expected to be amortized into net periodic defined benefit costs in 2016, $10 million for PPL and LKE, $6 million for LG&E and $4 million for KU are expected to be recorded as a regulatory asset in 2016.

(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2020.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, 2035 for LG&E and through 2040 for PPL, LKE and KU.

Accumulated Cost of Removal of Utility Plant

LG&E and KU accrue for costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL and PPL Electric)

Generation Supply Charge

The generation supply charge is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the generation supply charge contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarter.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense

In accordance with the PUC's December 2012 final rate case order, PPL Electric proposed the establishment of a Storm Damage Expense Rider (SDER) with the PUC. In April 2014, the PUC issued a final order approving the SDER with a January 1, 2015 effective date. On June 20, 2014, the Office of Consumer Advocate (OCA) filed a petition requesting the Commonwealth Court of Pennsylvania to reverse and remand the April 2014 order, which petition remains outstanding. On January 15, 2015, the PUC issued an order modifying the effective date of the SDER to February 1, 2015. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on the SDER.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allows PPL Electric to recover the maximum $250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum $185 million cost of the program over the three year period June 1, 2013 through May 31, 2016. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered at the end of the program. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from coal-fired electric generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, LG&E and KU were authorized to earn a 10% return on equity for all their existing ECR plans. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share variances between actual costs and market indices between the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs and incentives, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management/demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

Interest Rate Swaps

(PPL, 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. Net 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. In September 2015, first mortgage bonds totaling $1.05 billion were issued (LG&E issued $550 million and KU issued $500 million) and all outstanding forward-starting interest rate swaps were terminated. Net cash settlements of $88 million were paid on the swaps that were terminated (LG&E and KU each paid $44 million). Net realized losses on these terminated swaps will be recovered through regulated rates. As such, the net settlements were recorded in regulatory assets and are being recognized in "Interest Expense" on the Statements of Income over the life of the new debt that matures in 2025 and 2045. There were no forward starting interest rate swaps outstanding at December 31, 2015. See Note 17 for additional information related to the forward-starting interest rate swaps.

Net cash settlements of $86 million were received on forward starting interest rate swaps that were terminated in 2013 (LG&E and KU each received $43 million). Net realized gains on these terminated swaps will be returned through regulated rates. As such, the net settlements were recorded as regulatory liabilities and are being recognized in "Interest Expense" on the Statements of Income over the life of the associated debt that matures in 2043.

(PPL, LKE and LG&E)

In addition to the terminated forward starting interest rate swaps, realized amounts associated with LG&E's other interest rate swaps, including a terminated swap contract from 2008, are recoverable through rates based on an order from the KPSC, LG&E's unrealized losses and gains are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the gain or loss related to the 2008 terminated swap contract is to be recovered through 2035.

AROs

As discussed in Note 1, the accretion and depreciation expenses related to LG&E's and KU's AROs are recorded as a regulatory asset, such that there is no earnings impact. When an asset with an ARO is retired, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes, and its cost of capital including a return on equity for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, LG&E is authorized to earn a 10% return on equity for the GLT mechanism. As part of this program, LG&E makes necessary repairs and assumes ownership of natural gas lines. LG&E annually files projected costs in October to become effective on the first billing cycle in January. After the completion of a plan year, LG&E submits a balancing adjustment filing to the KPSC to amend rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these timing differences.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities are being amortized over the same terms as the related contracts, which expire at various times through 2016.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition.

Regulatory Liability Associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized.

Plant Retirement Costs

The 2014 Kentucky rate case settlement that became effective July 1, 2015, provided for deferred recovery of costs associated with Green River's remaining coal-fired generating units through their retirement date, which occurred in September 2015. These costs include inventory write-downs and separation benefits and will be amortized over three years.

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.

Ofgem Review of Line Loss Calculation

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during 2014 WPD increased its liability by $65 million for over-recovery of line losses with a reduction to "Operating Revenues" on the Statement of Income. In 2013, WPD had recorded an increase of $45 million to the liability with a reduction to "Operating Revenues" on the Statement of Income. Other activity impacting the liability included reductions in the liability that have been included in tariffs and foreign exchange movements. WPD began refunding the liability to customers on April 1, 2015 and will continue through March 31, 2019. The liability at December 31, 2015 and 2014 was $61 million and $99 million.

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

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

KPSC Landfill Proceedings

On May 22, 2015, LG&E and KU filed an application with the KPSC for a declaratory order that the existing CPCN and ECR approvals regarding the initial phases of construction and rate recovery of the landfill for management of CCRs at the Trimble County Station remain in effect. The current design of the proposed landfill provides for construction in substantially the same location as originally proposed with approximately the same storage capacity and expected useful life. On May 20, 2015, the owner of an underground limestone mine filed a complaint with the KPSC requesting it to revoke the CPCN for the Trimble County landfill and limit recovery of costs for the Ghent Station landfill on the grounds that, as a result of cost increases, the proposed landfill no longer constitutes the least cost alternative for CCR management. The KPSC has initiated its own investigation, consolidated the proceedings, and ordered an accelerated procedural schedule. The KPSC conducted a hearing on the matter in September 2015. On December 15, 2015, the KPSC issued an order affirming LG&E and KU's existing CPCN and ECR authority for Phase 1 of the Trimble County and Ghent landfills and related facilities, and that the landfills are the least cost options for disposing of the combustion wastes. Additionally, the order requires LG&E and KU to file a CPCN prior to constructing Phases 2 and 3 at the Ghent landfill and Phases 2 through 4 at the Trimble County landfill. The order also requires LG&E and KU to submit status update reports every three months on Phase 1 of Trimble County landfill. Phase 1 of construction at Trimble County will commence after the required state permits are obtained. Phase 1 of the Ghent landfill was completed in December 2014.

CPCN and ECR Filings

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

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 DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets

Rate Case Proceeding

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $167.5 million. The application was based on a fully projected future test year of January 1, 2016 through December 31, 2016. On September 3, 2015, PPL Electric filed with the PUC Administrative Law Judge a petition for approval of a settlement agreement under which PPL Electric would be permitted to increase its annual distribution rates by $124 million, effective January 1, 2016. On November 19, 2015, the PUC entered a final order adopting the Administrative Law Judge's recommended decision. The new rates became effective January 1, 2016.

Distribution System Improvement Charge (DSIC)

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

In September 2012, PPL Electric filed its LTIIP describing projects eligible for inclusion in the DSIC and, in an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. In November 2015, the PUC issued an opinion and order approving PPL Electric's Petition with minor modifications.

Storm Damage Expense Rider (SDER)

In its December 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 be 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.

In June 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. In December 2015, the Commonwealth Court issued an Opinion affirming the PUC's April 2014 Order. On January 15, 2015, the PUC issued a final order closing an investigation related to a separate OCA complaint concerning PPL Electric's October 2014 preliminary SDER calculation and modified the effective date of the SDER to February 1, 2015.

In the PUC rate case settlement agreement approved by the Commission in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at $15 million. The SDER will recover from customers or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than $15 million recovered annually through base rates. Beginning January 1, 2018, the amortized 2011 storm expense of $5 million will be included in the base rate component of the SDER.

Act 129

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

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

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

Smart Meter Rider (SMR)

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the requirements of Act 129. PPL Electric recovered the cost of its pilot programs and evaluations through a cost recovery mechanism, the Smart Meter Rider. In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised

SMR charges that became effective January 1, 2014. In June 2014, PPL Electric filed its final Smart Meter Plan with the PUC. In that plan, PPL Electric proposes by the end of 2019 to replace all of its current meters with new meters that meet the Act 129 requirements. The total cost of the project is estimated to be approximately $471 million, of which approximately $406 million is expected to be capital. PPL Electric proposes to recover these costs through the SMR which the PUC previously approved for recovery of such costs. On April 30, 2015, the Administrative Law Judge assigned by the PUC to review PPL Electric's Smart Meter Plan issued a recommended decision approving the plan with minor modifications. On September 3, 2015, the PUC entered a final order approving the Smart Meter Plan with minor modifications.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM Open Access Transmission Tariff (OATT) that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts.

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 provided 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. During the fourth quarter of 2015, the FERC approved the settlement agreement resolving the rate case with respect to these two municipalities, including approval of the formula rate with a true-up provision and authorizing a return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. In August 2015, KU filed a partial settlement agreement with the nine terminating municipalities, resolving all but one open matter with one municipality. The settlement was approved by FERC in the fourth quarter of 2015, including authorizing the agreed-upon refunds, approving the formula rate with a true-up provision, and authorizing a 10.25% return on equity. Refunds to both the remaining municipals and the departing municipals were issued during the fourth quarter of 2015 totaling $3.4 million. A single remaining unresolved issue with one terminating municipality is in FERC litigation proceedings. Hearings on the dispute were conducted in January 2016 and preliminary rulings on the matter may occur in mid- or late-2016. KU cannot predict the ultimate outcome of this FERC proceeding, but the amounts under continuing dispute are not estimated to be significant.

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:

		December 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 plc							
Syndicated Credit Facility (a) (c)	Dec. 2016	£ 210	£ 133		£ 77	£ 103	
WPD (South West)							
Syndicated Credit Facility (a) (c)	July 2020	245			245		
WPD (East Midlands)							
Syndicated Credit Facility (a) (c)	July 2020	300			300	64	
WPD (West Midlands)							
Syndicated Credit Facility (a) (c)	July 2020	300			300		
Uncommitted Credit Facilities		40		£ 4	36		£ 5
Total U.K. Credit Facilities (b)		£ 1,095	£ 133	£ 4	£ 958	£ 167	£ 5
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (c) (d)	Nov. 2018	$ 300		$ 151	$ 149		
Syndicated Credit Facility (c) (d)	July 2019	300		300			
Bilateral Credit Facility (c) (d)	Mar. 2016	150		20	130		$ 21
Total PPL Capital Funding Credit Facilities		$ 750		$ 471	$ 279		$ 21
PPL Electric							
Syndicated Credit Facility (c) (d)	July 2019	$ 300		$ 1	$ 299		$ 1
LKE							
Syndicated Credit Facility (c) (d) (f)	Oct. 2018	$ 75	$ 75			$ 75	
LG&E							
Syndicated Credit Facility (c) (d)	July 2019	$ 500		$ 142	$ 358		$ 264
KU							
Syndicated Credit Facility (c) (d)	July 2019	$ 400		$ 48	$ 352		$ 236
Letter of Credit Facility (c) (d) (e)	Oct. 2017	198		198			198
Total KU Credit Facilities		$ 598		$ 246	$ 352		$ 434

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

(b) WPD plc's amounts borrowed at December 31, 2015 and 2014 were USD-denominated borrowings of $200 million and $161 million, which bore interest at 1.83% and 1.86%. WPD (East Midlands) amount borrowed at December 31, 2014 was a GBP-denominated borrowing which equated to $100 million and bore interest at 1.00%. At December 31, 2015, the unused capacity under the U.K. credit facilities was approximately $1.4 billion.

(c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facility expiring in July 2019 be increased by up to $100 million and the facilities expiring in November 2018 and March 2016 may be increased by up to $30 million, PPL Electric, LG&E and KU each may request up to a $100 million increase in its facility's capacity and LKE may request up to a $25 million increase in its facility's capacity.

(e) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

(f) At December 31, 2015, LKE's interest rate on outstanding borrowings was 1.68%. At December 31, 2014, LKE's interest rate on outstanding borrowings was 1.67%.

In January 2016, WPD plc replaced its existing syndicated credit facility expiring in December 2016 with a new £210 million facility expiring in January 2021.

In January 2016, the expiration dates for the PPL Capital Funding and PPL Electric syndicated credit facilities expiring in July 2019 were extended to January 2021. PPL Capital Funding's capacity was increased to $700 million and PPL Electric's capacity was increased to $400 million. The expiration dates for the LG&E and KU syndicated credit facilities expiring in July 2019 were extended to December 2020. Additionally, subject to certain conditions, PPL Capital Funding and PPL Electric may each request up to a $250 million increase in its facility's capacity and LG&E and KU may each request up to a $100 million increase to the capacities of their facilities.

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

	December 31, 2015				December 31, 2014	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	0.78%	$ 600	$ 451	$ 149		
PPL Electric		300		300		
LG&E	0.71%	350	142	208	0.42%	$ 264
KU	0.72%	350	48	302	0.49%	236
Total		$ 1,600	$ 641	$ 959		$ 500

(PPL and LKE)

See Note 14 for discussion of intercompany borrowings.

Long-term Debt *(All Registrants)*

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2015	December 31, 2014
PPL				
U.S.				
Senior Unsecured Notes	3.87%	2018 - 2044	$ 3,425	$ 3,825
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.97%	2016 - 2045	6,874	6,074
Junior Subordinated Notes	6.31%	2067 - 2073	930	930
Total U.S. Long-term Debt			11,229	10,829
U.K.				
Senior Unsecured Notes (d)	5.33%	2016 - 2040	7,170	6,627
Index-linked Senior Unsecured Notes (e)	1.82%	2043 - 2056	772	732
Total U.K. Long-term Debt (f)			7,942	7,359
Total Long-term Debt Before Adjustments			19,171	18,188
Fair market value adjustments			30	37
Unamortized premium and (discount), net (e)			(28)	(52)
Unamortized debt issuance costs			(125)	(119)
Total Long-term Debt			19,048	18,054
Less current portion of Long-term Debt			485	1,000
Total Long-term Debt, noncurrent			$ 18,563	$ 17,054
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.50%	2020 - 2045	$ 2,864	$ 2,614
Total Long-term Debt Before Adjustments			2,864	2,614
Unamortized discount			(13)	(12)
Unamortized debt issuance costs			(23)	(21)
Total Long-term Debt			2,828	2,581
Less current portion of Long-term Debt				100
Total Long-term Debt, noncurrent			$ 2,828	$ 2,481
LKE				
Senior Unsecured Notes	3.97%	2020 - 2021	$ 725	$ 1,125
First Mortgage Bonds (a) (c)	3.58%	2016 - 2045	4,010	3,460
Long-term debt to affiliate	3.50%	2025	400	
Total Long-term Debt Before Adjustments			5,135	4,585
Fair market value adjustments			(1)	(1)
Unamortized discount			(16)	(17)
Unamortized debt issuance costs			(30)	(24)
Total Long-term Debt			5,088	4,543
Less current portion of Long-term Debt			25	900
Total Long-term Debt, noncurrent			$ 5,063	$ 3,643

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2015	December 31, 2014
LG&E				
First Mortgage Bonds (a) (c)	3.36%	2016 - 2045	$ 1,659	$ 1,359
Total Long-term Debt Before Adjustments			1,659	1,359
Fair market value adjustments			(1)	(1)
Unamortized discount			(4)	(5)
Unamortized debt issuance costs			(12)	(8)
Total Long-term Debt			1,642	1,345
Less current portion of Long-term Debt			25	250
Total Long-term Debt, noncurrent			$ 1,617	$ 1,095
KU				
First Mortgage Bonds (a) (c)	3.74%	2020 - 2045	$ 2,351	$ 2,101
Total Long-term Debt Before Adjustments			2,351	2,101
Unamortized discount			(10)	(10)
Unamortized debt issuance costs			(15)	(12)
Total Long-term Debt			2,326	2,079
Less current portion of Long-term Debt				250
Total Long-term Debt, noncurrent			$ 2,326	$ 1,829

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately $6.7 billion and $5.8 billion at December 31, 2015 and 2014.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $4.2 billion and $3.7 billion at December 31, 2015 and 2014.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $5.7 billion and $5.5 billion at December 31, 2015 and 2014.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes $224 million that may be redeemed at par beginning in 2015 and $90 million that may be redeemed, in whole or in part, at par beginning in October 2020 and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

(c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2015, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $418 million for LKE, comprised of $391 million and $27 million for LG&E and KU, respectively. At December 31, 2015, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $507 million for LKE, comprised of $183 million and $324 million for LG&E and KU, respectively.

Several series of the tax-exempt revenue bonds are insured by monoline bond insurers whose ratings were reduced due to exposures relating to insurance of sub-prime mortgages. Of the bonds outstanding, $231 million are in the form of insured auction rate securities ($135 million for LG&E and $96 million for KU), wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and LG&E and KU experienced failed auctions when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. As noted above, the instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes.

Certain of the variable rate tax-exempt revenue bonds totaling $251 million at December 31, 2015 ($23 million for LG&E and $228 million for KU), are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

(d) Includes £225 million ($339 million at December 31, 2015) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

(e) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2014 to 2015 was an increase of approximately £4 million ($6 million) resulting from inflation. In addition, this amount includes £225 million ($339 million at December 31, 2015) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

(f) Includes £4.4 billion ($6.6 billion at December 31, 2015) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

(g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2015.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2016 through 2020 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2016	$ 485		$ 25	$ 25	
2017	294		194	194	
2018	348		98	98	
2019	40		40	40	
2020	1,301	$ 100	975		$ 500
Thereafter	16,703	2,764	3,803	1,302	1,851
Total	$ 19,171	$ 2,864	$ 5,135	$ 1,659	$ 2,351

(PPL)

In May 2013, PPL Capital Funding remarketed $1.150 billion of 4.625% Junior Subordinated Notes due 2018 that were originally issued in June 2010 as a component of PPL's 2010 Equity Units. In connection with the remarketing, PPL Capital Funding issued $300 million of 2.04% Junior Subordinated Notes due 2016 and $850 million of 2.77% Junior Subordinated Notes due 2018, which were simultaneously exchanged for three tranches of Senior Notes: $250 million of 1.90% Senior Notes due 2018, $600 million of 3.40% Senior Notes due 2023 and $300 million of 4.70% Senior Notes due 2043. The transaction was accounted for as a debt extinguishment, resulting in a $10 million loss on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. The transaction was considered non-cash activity that was excluded from the Statement of Cash Flows for the year ended December 31, 2013. Additionally, in July 2013, PPL issued 40 million shares of common stock at $28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of $1.150 billion, which were used to repay short-term and long-term debt and for general corporate purposes.

In March 2014, PPL Capital Funding remarketed $978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired $228 million of the 4.32% Junior Subordinated Notes due 2019 and issued $350 million of 2.189% Junior Subordinated Notes due 2017 and $400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for $350 million of 3.95% Senior Notes due 2024 and $400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a $9 million loss on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the $228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and excluded from the Statement of Cash Flows for the year ended December 31, 2014. Additionally, in May 2014, PPL issued 31.7 million shares of common stock at $30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of $978 million, which were used to repay short-term debt and for general corporate purposes.

In November 2015, WPD plc issued £500 million aggregate nominal value of 3.625% Notes due 2023. WPD plc received proceeds of £495 million, which equated to $746 million at the time of issuance, net of a discount and underwriting fees, which will be used for general corporate purposes, including the re-financing of existing debt.

(PPL and PPL Electric)

In October 2015, PPL Electric issued $350 million of 4.15% First Mortgage Bonds due 2045. PPL Electric received proceeds of $345 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

In December 2015, PPL Electric repaid the entire $100 million principal amount of its 4.95% Senior Secured Bonds upon maturity.

(PPL, LKE and LG&E)

In September 2015, LG&E issued $300 million of 3.30% First Mortgage Bonds due 2025 and $250 million of 4.375% First Mortgage Bonds due 2045. LG&E received proceeds of $298 million and $248 million, net of discounts and underwriting fees, which were used to repay short-term debt, to repay 1.625% First Mortgage Bonds that matured in November 2015 and for general corporate purposes.

(PPL, LKE and KU)

In September 2015, KU issued $250 million of 3.30% First Mortgage Bonds due 2025 and $250 million of 4.375% First Mortgage Bonds due 2045. KU received proceeds of $248 million for each issuance, net of discounts and underwriting fees, which were used to repay short-term debt, to repay 1.625% First Mortgage Bonds that matured in November 2015 and for general corporate purposes.

(PPL and LKE)

In November 2015, LKE borrowed $400 million from a PPL affiliate through the issuance of a 3.50% note payable due 2025. The proceeds were used to repay the entire $400 million principal amount of its 2.125% Senior Unsecured Notes which matured in November 2015. See Note 14 for more information related to intercompany borrowings.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of $500 million of its common stock. During 2015, PPL issued 1,476,700 shares of common stock under the program at an average price of $33.41 per share, receiving net proceeds of $49 million.

Distributions and Related Restrictions

In November 2015, PPL declared its quarterly common stock dividend, payable January 4, 2016, at 37.75 cents per share (equivalent to $1.51 per annum). On February 4, 2016, PPL announced that the company is increasing its common stock dividend to 38 cents per share on a quarterly basis (equivalent to $1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors. See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2015, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2015, net assets of $2.7 billion ($1.1 billion for LG&E and $1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of $2.9 billion ($1.2 billion for LG&E and $1.7 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

8. Acquisitions, Development and Divestitures

(All Registrants)

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

(PPL)

Discontinued Operations

<u>Spinoff of PPL Energy Supply</u>

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

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in, 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 the appropriateness of this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

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

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

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

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

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

Costs of Spinoff

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges of $36 million for employee separation benefits were recorded related to 306 positions. Of this amount, $16 million related to 112 Energy Supply positions and is reflected in discontinued operations. The remaining $20 million is primarily reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. In 2015, the organizational structures were finalized for both PPL and Talen Energy which resulted in an additional charge of $10 million for employee separation benefits. Of this amount, $2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining $8 million is reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. At December 31, 2015 and 2014, the recorded liabilities related to the separation benefits were $13 million and $20 million, which are included in "Other current liabilities" on the Balance Sheets.

Additional employee-related costs incurred primarily included accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized $24 million of these costs at the spinoff closing date in 2015, which are reflected in discontinued operations.

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 for PPL's outstanding awards will correspond to the unrecognized compensation expense as of the date of the spinoff, which reflects the unamortized balance of the original grant date fair value of the equity awards held by PPL employees.

PPL recorded $45 million and $27 million of third-party costs related to this transaction in 2015 and 2014. Of these costs, $32 million and $19 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $13 million and $8 million of consulting and other costs were incurred in 2015 and 2014, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the Statements of Income. No significant additional third-party costs are expected to be incurred.

At the close of the transaction in 2015, $72 million ($42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into interest expense and reflected in discontinued operations.

As a result of the June 2014 spinoff announcement, PPL recorded $50 million of deferred income tax expense in 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years 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. In 2015, PPL billed $25 million to Talen Energy for these services. 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 November 2016. The energy purchases were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were $27 million and are no longer considered affiliate transactions.

(PPL)

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 December 31:

	2015	2014	2013
Operating revenues	$ 1,427	$ 3,848	$ 4,648
Operating expenses	1,328	3,410	4,173
Other Income (Expense) - net	(21)	13	32
Interest expense (a)	150	190	228
Gain on sale of Montana Hydro Sale		237	
Loss on lease termination			(697)
Income tax expense (benefit)	(30)	198	(180)
Loss on spinoff	(879)		
Income (Loss) from Discontinued Operations (net of income taxes)	$ (921)	$ 300	$ (238)

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

	Distribution on June 1, 2015	Discontinued Operations at December 31, 2014
Cash and cash equivalents (a)	$ 371	$ 352
Restricted cash and cash equivalents	156	176
Accounts receivable and unbilled revenues	334	504
Fuels, materials and supplies	415	455
Price risk management assets	784	1,079
Other current assets	46	26
Total Current Assets	2,106	2,592
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	63	69
Total Noncurrent Assets	8,288	8,311
Total assets	$ 10,394	$ 10,903
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	221
Total Current Liabilities	2,129	2,771

	Distribution on June 1, 2015		Discontinued Operations at December 31, 2014	
Long-term debt (excluding current portion)		1,917		1,677
Deferred income taxes		1,246		1,219
Price risk management liabilities		206		193
Accrued pension obligations		266		299
Asset retirement obligations		443		415
Other deferred credits and noncurrent liabilities		103		150
Total Noncurrent Liabilities		4,181		3,953
Total liabilities	$	6,310	$	6,724
Adjustment for loss on spinoff		879		
Net assets distributed	$	3,205		

(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 year ended December 31, 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. A gain of $237 million ($137 million after-tax) was recorded on the sale of the hydroelectric power facilities.

In December 2013, to facilitate the sale of the Montana hydroelectric generating facilities, PPL Montana terminated its operating lease arrangement related to partial interests in the Colstrip coal-fired electric generating facility and acquired those interests collectively for $271 million. A loss of $697 million ($413 million after-tax) was recorded for the termination of the lease arrangement.

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

Regional Transmission Line Expansion Plan *(PPL and PPL Electric)*

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kV transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the Pennsylvania portion of the Susquehanna-Roseland line and Public Service Electric & Gas Company to construct the New Jersey portion of the line. The line was energized, in May 2015. At December 31, 2015 and 2014, $648 million and $597 million of costs were capitalized and are included on the Balance Sheet primarily in "Regulated utility plant" for 2015 and "Construction work in progress" for 2014.

Northeast/Pocono

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

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a Final Order approving the application. PPL Electric expects the project to be completed in 2016. At December 31, 2015, PPL Electric's estimated cost of the project was $335 million. At December 31, 2015 and

2014, $319 million and $183 million of costs were capitalized and are included on the Balance Sheet primarily in "Regulated utility plant" for 2015 and "Construction work in progress" for 2014.

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

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

In December 2014, a final order was issued by the KPSC approving the request to construct a 10 MW solar generation facility at E.W. Brown. LG&E and KU began construction activities in the fourth quarter of 2015 and project the plant to be placed into commercial operation by June 2016 at a cost of approximately $30 million.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

	2015	2014	2013
PPL	$ 49	$ 51	$ 56
LKE	24	18	18
LG&E	12	7	7
KU	11	10	10

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2016	$ 33	$ 25	$ 14	$ 10
2017	28	23	14	9
2018	24	21	13	7
2019	14	12	7	5
2020	11	9	4	5
Thereafter	31	22	10	11
Total	$ 141	$ 112	$ 62	$ 47

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

In 2012, shareowners approved the SIP. This equity plan replaced the ICP and incorporated the following changes:

- Eliminates the potential to pay dividend equivalents on stock options.
- Eliminates the automatic lapse of restrictions on all equity awards in the event of a "potential" change in control and requires that a termination of employment occur in the event of a change in control before restrictions lapse.
- Changes the treatment of outstanding stock options upon retirement to limit the exercise period to the earlier of the end of the term (ten years from grant) or five years after retirement.

To further align the executives' interests with those of PPL shareowners, this plan provides that each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICP and the ICPKE are currently paid in cash when dividends are declared by PPL.

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in shares (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in cash (in dollars)
ICP (a)	15,769,431	2%	3,000,000		
SIP	10,000,000		2,000,000	750,000	$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

(a) Applicable to outstanding awards granted from January 27, 2006 to January 26, 2012. During 2012, the total plan award limit was reached and the ICP was replaced by the SIP.

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock and restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2015	2014	2013
PPL	$ 34.50	$ 31.50	$ 30.30
PPL Electric	34.41	31.81	30.55
LKE	34.89	30.98	30.00

Restricted stock and restricted stock unit activity for 2015 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	3,485,520	$ 30.07
Granted	1,028,009	34.50
Anti-dilution adjustments (a)	247,098	N/A
Vested	(3,055,205)	29.34
Forfeited	(25,947)	30.70
Nonvested, end of period (b)	1,679,475	29.65
PPL Electric		
Nonvested, beginning of period	286,811	$ 30.04
Transfer between registrants	(22,730)	29.56
Granted	75,213	34.41
Anti-dilution adjustments (a)	18,661	N/A
Vested	(127,507)	29.12
Forfeited	(9,363)	30.51
Nonvested, end of period	221,085	29.48
LKE		
Nonvested, beginning of period	341,468	$ 29.76
Transfer between registrants	4,300	31.74
Granted	98,360	34.89
Anti-dilution adjustments (a)	24,587	N/A
Vested	(149,752)	28.55
Nonvested, end of period	318,963	29.65

(a) Includes adjustment to all restricted stock units granted prior to the spinoff of PPL Energy Supply as provided for under the anti-dilution provisions of PPL's stock-based compensation Plans.
(b) Excludes 1,226,193 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	2015	2014	2013
PPL	$ 28	$ 11	$ 12
PPL Electric	4	2	3
LKE	4		1

Performance Units

Performance units are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each years' awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period.

Beginning in 2014, the fair value of performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. The fair value of performance units granted in 2013 and prior years is recognized as compensation expense on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2015	2014	2013
Expected stock volatility	15.90%	15.80%	15.50%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	2015	2014	2013
PPL	$ 36.76	$ 34.55	$ 34.15
PPL Electric	37.93	34.43	33.97
LKE	37.10	34.12	33.84

Performance unit activity for 2015 was:

	Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,171,716	$ 33.77
Granted	481,197	36.76
Anti-dilution adjustment (a)	90,251	N/A
Vested	(509,139)	32.12
Forfeited	(240,485)	33.35
Nonvested, end of period (b)	993,540	33.09
PPL Electric		
Nonvested, beginning of period	59,615	$ 33.77
Transfer between registrants	(3,676)	35.80
Granted	21,798	37.93
Anti-dilution adjustment (a)	4,627	N/A
Vested	(8,497)	31.38
Forfeited	(6,196)	31.38
Nonvested, end of period	67,671	33.05
LKE		
Nonvested, beginning of period	173,946	$ 33.32
Granted	66,439	37.10
Anti-dilution adjustment (a)	13,207	N/A
Vested	(30,921)	31.35
Forfeited	(29,507)	31.36
Nonvested, end of period	193,164	32.96

(a) Includes adjustment to all performance units granted prior to the spinoff of PPL Energy Supply as provided for under the anti-dilution provisions of PPL's stock-based compensation Plans.
(b) Excludes 322,429 performance units for which the service vesting requirement was waived for former PPL Energy Supply employees as a result of the spinoff, but for which the ultimate number of shares to be distributed will depend on the actual attainment of the performance goals at the end of the specified performance periods.

The total fair value of performance units vesting for the year ended December 31, 2015 and 2014 was $6 million and $5 million for PPL and insignificant for PPL Electric and LKE.

Stock Options

PPL's CGNC eliminated the use of stock options and changed its long-term incentive mix to 60% performance units and 40% performance-contingent restricted stock units, resulting in 100% performance-based long-term incentive mix for equity awards granted beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2015, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans. The fair value of options granted is recognized as compensation expense on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, expected volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. PPL uses a mix of historic and implied volatility to value awards. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price. The assumptions used in the model were:

	2013
Risk-free interest rate	1.15%
Expected option life	6.48 years
Expected stock volatility	18.50%
Dividend yield	5.00%

The weighted-average grant date fair value of options granted was:

	2013
PPL	$ 2.18
PPL Electric	2.19
LKE	2.18

Stock option activity for 2015 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	9,042,962	$ 30.93		
Anti-dilution adjustment (a)	907,737	28.06		
Exercised	(3,559,874)	27.35		
Forfeited	(5,676)	26.67		
Outstanding at end of period	6,385,149	28.54	5.2	$ 42
Options exercisable at end of period	5,683,535	28.78	5.0	36
PPL Electric				
Outstanding at beginning of period	507,920	$ 30.04		
Transfer between registrants	(15,339)	29.60		
Anti-dilution adjustment (a)	44,859	28.06		
Exercised	(224,007)	27.20		
Outstanding at end of period	313,433	27.79	5.2	$ 2
Options exercisable at end of period	263,443	28.02	4.8	2

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
LKE				
Outstanding at beginning of period	623,317	$ 28.64		
Anti-dilution adjustment (a)	43,236	28.06		
Exercised	(240,897)	28.04		
Outstanding at end of period	425,656	26.08	6.7	$ 3
Options exercisable at end of period	277,101	25.80	6.5	2

(a) Adjustments to prior year grants under the anti-dilution provisions of PPL's stock-based compensation Plans as a result of the spinoff of PPL Energy Supply.

Substantially all stock option awards are expected to vest.

For 2015, 2014 and 2013, PPL received $97 million, $67 million and $31 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2015, 2014 and 2013 were $21 million, $13 million and $6 million.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2015	2014	2013
PPL	$ 33	$ 30	$ 25
PPL Electric	14	12	10
LKE	8	8	8

See Note 8 for details of the costs recognized in discontinued operations related to the accelerated vesting of awards for former PPL Energy Supply employees.

The income tax benefit related to above compensation expense was as follows:

	2015	2014	2013
PPL	$ 14	$ 12	$ 11
PPL Electric	6	5	4
LKE	3	3	3

The income tax benefit PPL realized from stock-based awards vested or exercised was not significant for 2015, 2014 or 2013.

At December 31, 2015, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 8	1.6 years
PPL Electric	2	1.6 years
LKE	1	1.4 years

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of PPL's subsidiaries domestic employees are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Net periodic defined benefit costs (credits):									
Service cost	$ 96	$ 97	$ 119	$ 79	$ 71	$ 69	$ 11	$ 12	$ 13
Interest cost	194	224	205	314	354	320	26	31	29
Expected return on plan assets	(258)	(287)	(283)	(523)	(521)	(465)	(26)	(26)	(25)
Amortization of:									
Prior service cost (credit)	7	20	22			1	1		
Actuarial (gain) loss	84	28	77	158	132	150		1	6
Net periodic defined benefit costs (credits) prior to termination benefits	123	82	140	28	36	75	12	18	23
Termination benefits		13				3			
Net periodic defined benefit costs (credits)	$ 123	$ 95	$ 140	$ 28	$ 36	$ 78	$ 12	$ 18	$ 23

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Divestiture (a)	$ (353)						$ (6)		
Net (gain) loss	63	$ 574	$ (304)	$ 508	$ 354	$ 76	(9)	$ 22	$ (67)
Prior service cost (credit)	18	(8)						7	
Amortization of:									
Prior service (cost) credit	(7)	(20)	(22)			(1)	(1)		
Actuarial gain (loss)	(85)	(28)	(77)	(158)	(132)	(150)		(1)	(6)
Total recognized in OCI and regulatory assets/liabilities (b)	(364)	518	(403)	350	222	(75)	(16)	28	(73)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	$ (241)	$ 613	$ (263)	$ 378	$ 258	$ 3	$ (4)	$ 46	$ (50)

(a) As a result of the spinoff of PPL Energy Supply, amounts in AOCI were allocated to certain former active and inactive employees of PPL Energy Supply and included in the distribution. See Note 8 for additional details.
(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
OCI	$ (269)	$ 319	$ (210)	$ 12	$ 7	$ (37)
Regulatory assets/liabilities	(95)	199	(193)	(28)	21	(36)
Total recognized in OCI and regulatory assets/liabilities	$ (364)	$ 518	$ (403)	$ (16)	$ 28	$ (73)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2016 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	$ 8	
Actuarial (gain) loss	49	$ 151
Total	$ 57	$ 151
Amortization from Balance Sheet:		
AOCI	$ 12	$ 151
Regulatory assets/liabilities	45	
Total	$ 57	$ 151

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Net periodic defined benefit costs (credits):						
Service cost	$ 26	$ 21	$ 26	$ 5	$ 4	$ 5
Interest cost	68	66	62	9	9	8
Expected return on plan assets	(88)	(82)	(82)	(6)	(4)	(5)
Amortization of:						
Prior service cost (credit)	7	5	5	3	2	3
Actuarial (gain) loss (a)	37	12	33		(1)	
Net periodic defined benefit costs (credit)	$ 50	$ 22	$ 44	$ 11	$ 10	$ 11
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	$ 20	$ 162	$ (116)	$ (15)	$ 26	$ (14)
Prior service cost (credit)	19	23			6	
Amortization of:						
Prior service (cost) credit	(7)	(5)	(5)	(3)	(2)	(3)
Actuarial gain (loss)	(37)	(12)	(33)		1	
Total recognized in OCI and regulatory assets/liabilities	(5)	168	(154)	(18)	31	(17)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ 45	$ 190	$ (110)	$ (7)	$ 41	$ (6)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $9 million.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
OCI	$ 4	$ 84	$ (46)	$ (2)	$ 9	$ (1)
Regulatory assets/liabilities	(9)	84	(108)	(16)	22	(16)
Total recognized in OCI and regulatory assets/liabilities	$ (5)	$ 168	$ (154)	$ (18)	$ 31	$ (17)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2016 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	$ 8	$ 2
Actuarial (gain) loss	20	
Total	$ 28	$ 2
Amortization from Balance Sheet:		
AOCI	$ 2	$ 1
Regulatory assets/liabilities	26	1
Total	$ 28	$ 2

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2015	2014	2013
Net periodic defined benefit costs (credits):			
Service cost	$ 1	$ 1	$ 2
Interest cost	14	15	14
Expected return on plan assets	(20)	(19)	(20)
Amortization of:			
Prior service cost (credit)	3	2	2
Actuarial (gain) loss (a)	11	6	14
Net periodic defined benefit costs (credits)	$ 9	$ 5	$ 12
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net (gain) loss	$ 8	$ 14	$ (20)
Prior service cost (credit)	10	9	
Amortization of:			
Prior service (cost) credit	(3)	(2)	(2)
Actuarial gain (loss)	(11)	(6)	(14)
Total recognized in regulatory assets/liabilities	4	15	(36)
Total recognized in net periodic defined benefit costs and regulatory assets	$ 13	$ 20	$ (24)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $3 million.

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2016 are as follows.

	Pension Benefits
Prior service cost (credit)	$ 5
Actuarial (gain) loss	7
Total	$ 12

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2015	2014	2013	2015	2014	2013	2015	2014	2013
PPL	$ 71	$ 45	$ 72	$ (21)	$ (9)	$ 33	$ 8	$ 10	$ 13
PPL Electric (a)	15	12	18					2	3
LKE (b)	37	17	32				8	7	8
LG&E (b)	12	5	14				4	4	4
KU (a) (b)	9	3	9				2	2	2

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts, $4 million for LG&E and $1 million for KU were recorded as regulatory assets.

In the table above LG&E amounts include costs for the specific plans its sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
LG&E	$ 5	$ 2	$ 5	$ 4	$ 4	$ 4

(PPL, LKE and LG&E)

PPL, LKE and LG&E adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans at December 31, 2015. In addition, PPL, LKE and LG&E updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in an increase to U.S. defined benefit pension and other postretirement benefit obligations, an increase to future expense and a decrease in funded status.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
PPL						
Discount rate	4.59%	4.25%	3.68%	3.85%	4.48%	4.09%
Rate of compensation increase	3.93%	3.91%	4.00%	4.00%	3.91%	3.86%
LKE						
Discount rate	4.56%	4.25%			4.49%	4.06%
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%
LG&E						
Discount rate	4.49%	4.20%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
PPL									
Discount rate	4.25%	5.12%	4.22%	3.85%	4.41%	4.27%	4.09%	4.91%	4.00%
Rate of compensation increase	3.91%	3.97%	3.98%	4.00%	4.00%	4.00%	3.86%	3.96%	3.97%
Expected return on plan assets (a)	7.00%	7.00%	7.03%	7.19%	7.19%	7.16%	6.06%	5.96%	5.94%
LKE									
Discount rate	4.25%	5.18%	4.24%				4.06%	4.91%	3.99%
Rate of compensation increase	3.50%	4.00%	4.00%				3.50%	4.00%	4.00%
Expected return on plan assets (a)	7.00%	7.00%	7.10%				6.82%	6.75%	6.76%
LG&E									
Discount rate	4.20%	5.13%	4.20%						
Expected return on plan assets (a)	7.00%	7.00%	7.10%						

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2015	2014	2013
PPL and LKE			
Health care cost trend rate assumed for next year			
- obligations	6.8%	7.2%	7.6%
- cost	7.2%	7.6%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.0%	5.0%	5.0%
- cost	5.0%	5.0%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2020	2020	2020
- cost	2020	2020	2019

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2015:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on accumulated postretirement benefit obligation		
PPL	$ 6	$ (5)
LKE	5	(4)

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits U.S. 2015	Pension Benefits U.S. 2014	Pension Benefits U.K. 2015	Pension Benefits U.K. 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$ 5,399	$ 4,428	$ 8,523	$ 8,143	$ 716	$ 650
Service cost	96	97	79	71	11	12
Interest cost	194	224	314	354	26	31
Participant contributions			15	16	13	12
Plan amendments	19	(7)				6
Actuarial (gain) loss	(193)	887	200	747	(37)	59
Divestiture (a)	(1,416)				(76)	
Termination benefits		13				
Gross benefits paid (b)	(236)	(243)	(391)	(411)	(58)	(55)
Federal subsidy					1	1
Currency conversion			(336)	(397)		
Benefit Obligation, end of period	3,863	5,399	8,404	8,523	596	716
Change in Plan Assets						
Plan assets at fair value, beginning of period	4,462	4,009	7,734	7,284	484	446
Actual return on plan assets	2	600	205	895	(2)	62
Employer contributions	158	96	366	311	17	15
Participant contributions			15	16	13	12
Divestiture (a)	(1,159)				(80)	
Gross benefits paid (b)	(236)	(243)	(391)	(411)	(53)	(51)
Currency conversion			(304)	(361)		
Plan assets at fair value, end of period	3,227	4,462	7,625	7,734	379	484
Funded Status, end of period	$ (636)	$ (937)	$ (779)	$ (789)	$ (217)	$ (232)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset					$ 2	$ 1
Current liability	$ (10)	$ (10)		$ (1)	(3)	(3)
Noncurrent liability	(626)	(668)	$ (779)	(788)	(216)	(196)
Noncurrent liability of discontinued operations		(259)				(34)
Net amount recognized, end of period	$ (636)	$ (937)	$ (779)	$ (789)	$ (217)	$ (232)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	$ 53	$ 41			$ 1	
Net actuarial (gain) loss	977	1,353	$ 2,684	$ 2,334	37	$ 54
Total (c)	$ 1,030	$ 1,394	$ 2,684	$ 2,334	$ 38	$ 54
Total accumulated benefit obligation for defined benefit pension plans	$ 3,590	$ 4,946	$ 7,747	$ 7,867		

(a) As a result of the spinoff of PPL Energy Supply, obligations and assets attributable to certain former active and inactive employees of PPL Energy Supply were transferred to Talen Energy plans.

(b) Certain U.S. pension plans offered a limited-time program in 2014 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump sum payment. Gross benefits paid includes $33 million of lump-sum cash payments made to terminated vested participants in 2014 in connection with these offerings.

(c) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
AOCI	$ 275	$ 714	$ 18	$ 30
Regulatory assets/liabilities	755	680	20	24
Total	$ 1,030	$ 1,394	$ 38	$ 54

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S. PBO in excess of plan assets		U.K. PBO in excess of plan assets	
	2015	2014	2015	2014
Projected benefit obligation	$ 3,863	$ 5,399	$ 8,404	$ 8,523
Fair value of plan assets	3,227	4,462	7,625	7,734

	U.S. ABO in excess of plan assets		U.K. ABO in excess of plan assets	
	2015	2014	2015	2014
Accumulated benefit obligation	$ 3,590	$ 4,946	$ 3,532	$ 3,592
Fair value of plan assets	3,227	4,462	3,287	3,321

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$ 1,608	$ 1,328	$ 234	$ 193
Service cost	26	21	5	4
Interest cost	68	66	9	9
Participant contributions			7	7
Plan amendments (a)	19	23		6
Actuarial (gain) loss	(74)	253	(22)	32
Gross benefits paid (b)	(59)	(83)	(18)	(17)
Federal subsidy			1	
Benefit Obligation, end of period	1,588	1,608	216	234
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,301	1,173	82	74
Actual return on plan assets	(7)	173		10
Employer contributions	54	38	17	8
Participant contributions			7	7
Gross benefits paid (b)	(59)	(83)	(18)	(17)
Plan assets at fair value, end of period	1,289	1,301	88	82
Funded Status, end of period	$ (299)	$ (307)	$ (128)	$ (152)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset			$ 2	$ 2
Current liability	$ (3)	$ (3)	(3)	(3)
Noncurrent liability	(296)	(304)	(127)	(151)
Net amount recognized, end of period	$ (299)	$ (307)	$ (128)	$ (152)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost (credit)	$ 54	$ 43	$ 9	$ 12
Net actuarial (gain) loss	338	354	(19)	(4)
Total	$ 392	$ 397	$ (10)	$ 8
Total accumulated benefit obligation for defined benefit pension plans	$ 1,452	$ 1,461		

(a) The pension plans were amended in December 2015 allowing terminated vested participants to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation increased by $19 million as a result of the amendment.

The plans were amended in December 2014 to enhance the early retirement factors for all plan participants retiring on or after January 1, 2015. These modifications resulted in an increase of $23 million in the plans' projected benefit obligations as of December 31, 2014.

(b) Certain LKE pension plans offered a limited-time program in 2014 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump-sum payment. The gross benefits paid includes $33 million of lump-sum cash payments made to terminated vested participants during 2014 in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
AOCI	$ 70	$ 65	$ 7	$ 8
Regulatory assets/liabilities	322	332	(17)	
Total	$ 392	$ 397	$ (10)	$ 8

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2015	2014
Projected benefit obligation	$ 1,588	$ 1,608
Fair value of plan assets	1,289	1,301

	ABO in excess of plan assets	
	2015	2014
Accumulated benefit obligation	$ 1,452	$ 1,461
Fair value of plan assets	1,289	1,301

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2015	2014
Change in Benefit Obligation		
Benefit Obligation, beginning of period	$ 331	$ 291
Service cost	1	1
Interest cost	14	15
Plan amendments (a)	10	9
Actuarial (gain) loss	(15)	36
Gross benefits paid (b)	(15)	(21)
Benefit Obligation, end of period	326	331
Change in Plan Assets		
Plan assets at fair value, beginning of period	301	281
Actual return on plan assets	(2)	41
Employer contributions	13	
Gross benefits paid (b)	(15)	(21)
Plan assets at fair value, end of period	297	301
Funded Status, end of period	$ (29)	$ (30)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	$ (29)	$ (30)
Net amount recognized, end of period	$ (29)	$ (30)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost (credit)	$ 29	$ 22
Net actuarial (gain) loss	95	98
Total	$ 124	$ 120
Total accumulated benefit obligation for defined benefit pension plan	$ 326	$ 330

(a) The plan was amended in December 2015 allowing terminated vested participants to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation increased by $10 million as a result of the amendment.

The plan was amended in December 2014 to enhance the early retirement factors for all plan participants retiring on or after January 1, 2015. The projected benefit obligation increased by $9 million as a result of the amendment.

(b) LG&E's pension plan offered a limited-time program in 2014 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump-sum payment. The gross benefits paid includes $8 million of lump-sum cash payments made to terminated vested participants in 2014 in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2015 and 2014.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2015	2014
Pension	$ 26	$ 27
Other postretirement benefits	77	85

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. As a result of the spinoff of PPL Energy Supply, pension and other postretirement plans were remeasured resulting in adjustments to PPL Electric's allocated balances of $56 million, reflected as a non-cash contribution on the Statement of Equity. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows.

	2015	2014
Pension	$ 183	$ 212
Other postretirement benefits	67	40

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows:

	2015	2014
Pension	$ 46	$ 59
Other postretirement benefits	42	52

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2015 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2015
	2015 (a)	2014	Target Asset Allocation (a)
Growth Portfolio	**51%**	**51%**	**50%**
Equity securities	25%	26%	
Debt securities (b)	13%	13%	
Alternative investments	13%	12%	
Immunizing Portfolio	**47%**	**47%**	**48%**
Debt securities (b)	42%	44%	
Derivatives	5%	3%	
Liquidity Portfolio	**2%**	**2%**	**2%**
Total	100%	100%	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of $1.3 billion at December 31, 2015 and 2014 represents an interest of approximately 40% and 28% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of $297 million and $301 million at December 31, 2015 and 2014 represents an interest of approximately 9% and 6% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2015				December 31, 2014			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$ 225	$ 225			$ 246	$ 246		
Equity securities:								
U.S.:								
Large-cap	87	87			114	114		
Large-cap fund measured at NAV (a)	197				318			
Small-cap	85	85			145	145		
International equity fund at NAV (a)	454				615			
Commingled debt measured at NAV (a)	514				818			
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	501	492	$ 9		723	706	$ 17	
Residential/commercial backed securities	3		3		2		2	
Corporate	747		737	$ 10	1,109		1,088	$ 21
International government	4		4		8		8	
Other	7		7		9		9	

	December 31, 2015				December 31, 2014			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Alternative investments:								
Commodities measured at NAV (a)	70				90			
Real estate measured at NAV (a)	118				148			
Private equity measured at NAV (a)	81				104			
Hedge funds measured at NAV (a)	171				223			
Derivatives:								
Interest rate swaps and swaptions	80		80		92		92	
Other	11		11		12		12	
Insurance contracts	32			32	33			33
PPL Services Corporation Master Trust assets, at fair value	3,387	$ 889	$ 851	$ 42	4,809	$ 1,211	$ 1,228	$ 54
Receivables and payables, net (b)	(49)				(41)			
401(h) accounts restricted for other postretirement benefit obligations	(111)				(136)			
Total PPL Services Corporation Master Trust pension assets (c)	$ 3,227				$ 4,632			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.
(c) As a result of the spinoff of PPL Energy Supply, $1,159 million of assets were transferred to Talen Energy in 2015, attributable to former active and inactive employees of PPL Energy Supply that had participated in PPL's pension plan. An additional $170 million of assets of the PPL Montana pension plan transferred to Talen Energy, as that entire plan was assumed by Talen Energy.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2015 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 21	$ 33	$ 54
Actual return on plan assets			
Relating to assets still held at the reporting date		2	2
Relating to assets sold during the period	(1)		(1)
Purchases, sales and settlements	(10)	(3)	(13)
Balance at end of period	$ 10	$ 32	$ 42

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2014 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 23	$ 37	$ 60
Actual return on plan assets			
Relating to assets still held at the reporting date	(1)	1	
Relating to assets sold during the period	(1)		(1)
Purchases, sales and settlements		(5)	(5)
Balance at end of period	$ 21	$ 33	$ 54

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices and exchange traded funds (ETFs).

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in commodities represent ownership interest of a commingled fund that is invested in a portfolio of exchange-traded futures and forward contracts in commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. Redemptions can be made the 15th calendar day and the last calendar day of the month with a specified notification period. The fund's fair value is based upon a value as calculated by the fund's administrator.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of $27 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in three hedge fund of funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed within 60 to 95 days with prior written notice. The funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. The fair value for two of the funds has been estimated using the net asset value per share and the third fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap) which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2015	2014	2015
Asset Class			
U.S. Equity securities	48%	49%	45%
Debt securities (a)	50%	49%	50%
Cash and cash equivalents (b)	2%	2%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2015				December 31, 2014			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	$ 6	$ 6			$ 9	$ 9		
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	129				169			
Commingled debt fund measured at NAV (a)	109				136			
Debt securities:								
Municipalities	23		$ 23		33		$ 33	
Total VEBA trust assets, at fair value	267	$ 6	$ 23		347	$ 9	$ 33	
Receivables and payables, net (b)	1				1			
401(h) account assets	111				136			
Total other postretirement benefit plan assets (c)	$ 379				$ 484			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.
(c) As a result of the spinoff of PPL Energy Supply, $80 million of assets were transferred to Talen Energy in 2015, attributable to former active employees of PPL Energy Supply that had participated in PPL's other postretirement benefit plan.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made weekly on these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans *(PPL)*

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2015	**2014**	**2015**
Asset Class			
Cash and cash equivalents	1%	1%	
Equity securities			
U.K.	3%	3%	4%
European (excluding the U.K.)	2%	3%	3%
Asian-Pacific	2%	2%	2%
North American	3%	3%	3%
Emerging markets	10%	9%	10%
Currency	1%	2%	1%
Global Tactical Asset Allocation	31%	29%	31%
Debt securities (a)	40%	42%	39%
Alternative investments	7%	6%	7%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2015				December 31, 2014			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 55	$ 55			$ 57	$ 57		
Equity securities measured at NAV (a) :								
U.K. companies	274				239			
European companies (excluding the U.K.)	190				198			
Asian-Pacific companies	132				142			
North American companies	220				227			
Emerging markets companies	284				309			
Global Equities	500				397			
Currency	39				190			
Other	2,384				2,263			
Commingled debt:								
U.K. corporate bonds	2				92			
U.K. gilts	3				913			
Debt Securities:								
U.K. corporate bonds	364		$ 364		344		$ 344	
U.K. gilts	2,645		2,645		1,927		1,927	
Alternative investments:								
Real estate measured at NAV (a)	533				436			
Fair value - U.K. pension plans	$ 7,625	$ 55	$ 3,009		$ 7,734	$ 57	$ 2,271	

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices. Other comprises a range of investment strategies which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans *(PPL)*

PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL contributed $30 million to its U.S. pension plans in January 2016.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $10 million of benefit payments under these plans in 2016.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute $13 million to its other postretirement benefit plans in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2016	$ 234	$ 54	$ 1
2017	245	53	1
2018	250	53	1
2019	259	53	1
2020	261	52	1
2021-2025	1,333	244	2

(LKE)

LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LKE contributed $30 million to its pension plans in January 2016.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make $3 million of benefit payments under these plans in 2016.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected $13 million to its other postretirement benefit plan in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2016	$ 95	$ 13	
2017	100	14	
2018	102	15	$ 1
2019	105	16	
2020	107	16	
2021-2025	550	85	2

(LG&E)

LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LG&E contributed $7 million to its pension plan in January 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2016	$ 23
2017	25
2018	24
2019	25
2020	25
2021-2025	111

Expected Cash Flows - U.K. Pension Plans *(PPL)*

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements for periods after April 1, 2014 were evaluated in accordance with the valuations performed as of March 31, 2013. WPD expects to make contributions of approximately $364 million in 2016. WPD is currently permitted to recover in current rates approximately 78% of their pension funding requirements for their primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2016	$ 379
2017	384
2018	391
2019	397
2020	402
2021-2025	2,074

Savings Plans *(All Registrants)*

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2015	2014	2013
PPL	$ 34	$ 33	$ 29
PPL Electric	6	6	6
LKE	16	15	13
LG&E	5	5	7
KU	4	4	6

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of

December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

See Note 8 for a discussion of separation benefits recognized in 2015 and 2014 related to the spinoff of PPL Energy Supply. Separation benefits were not significant in 2013.

12. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2015 and 2014, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2015				
Generating Plants				
Trimble County Unit 1	75.00%	$ 399	$ 44	$ 6
Trimble County Unit 2	75.00%	1,013	141	27
December 31, 2014				
Generating Plants				
Trimble County Unit 1	75.00%	$ 309	$ 51	$ 59
Trimble County Unit 2	75.00%	1,002	122	32
LG&E				
December 31, 2015				
Generating Plants				
E.W. Brown Units 6-7	38.00%	$ 40	$ 12	
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	47	10	$ 1
Trimble County Unit 1	75.00%	399	44	6
Trimble County Unit 2	14.25%	210	28	12
Trimble County Units 5-6	29.00%	29	6	
Trimble County Units 7-10	37.00%	71	14	
Cane Run Unit 7	22.00%	115	1	1
E.W. Brown Solar Unit	39.00%			4
December 31, 2014				
Generating Plants				
E.W. Brown Units 6-7	38.00%	$ 40	$ 10	
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	47	7	
Trimble County Unit 1	75.00%	309	51	$ 59
Trimble County Unit 2	14.25%	205	23	15
Trimble County Units 5-6	29.00%	29	5	
Trimble County Units 7-10	37.00%	70	11	
Cane Run Unit 7	22.00%			113
KU				
December 31, 2015				
Generating Plants				
E.W. Brown Units 6-7	62.00%	$ 65	$ 19	
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	43	9	$ 1
Trimble County Unit 2	60.75%	803	113	15
Trimble County Units 5-6	71.00%	70	15	
Trimble County Units 7-10	63.00%	121	23	
Cane Run Unit 7	78.00%	411	6	5
E.W. Brown Solar Unit	61.00%			6
December 31, 2014				
Generating Plants				
E.W. Brown Units 6-7	62.00%	$ 65	$ 15	$ 1
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	42	6	
Trimble County Unit 2	60.75%	797	98	17
Trimble County Units 5-6	71.00%	70	11	
Trimble County Units 7-10	63.00%	120	18	1
Cane Run Unit 7	78.00%			403

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

(PPL)

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

Energy Purchase Commitments *(PPL, LKE, LG&E and KU)*

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Coal	2022
Coal Transportation and Fleeting Services	2024
Natural Gas Storage	2024
Natural Gas Transportation	2026

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses are projected as follows:

	LG&E	KU	Total
2016	$ 18	$ 8	$ 26
2017	19	8	27
2018	19	8	27
2019	19	9	28
2020	20	9	29
Thereafter	435	193	628
	$ 530	$ 235	$ 765

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2015	2014	2013
LG&E	$ 15	$ 17	$ 18
KU	7	8	8
Total	$ 22	$ 25	$ 26

Legal Matters

(All Registrants)

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

WKE Indemnification *(PPL and LKE)*

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

(PPL, LKE, LG&E and KU)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth Circuit issued an order granting appellate review regarding the above matter. Oral argument before the Sixth Circuit was held in August 2015. In November 2015, the Sixth Circuit issued an opinion affirming the District Court's ruling that plaintiffs' state law claims are not preempted by the Clean Air Act and remanding the matter to the District Court for further proceedings. Certain discovery matters are currently before the District Court. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

Mill Creek Environmental Claims

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

E.W. Brown Environmental Claims

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

Trimble County Unit 2 Air Permit

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

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April

2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC have moved for discretionary review by the Kentucky Supreme Court. On February 10, 2016, the Kentucky Supreme Court issued an order granting discretionary review. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Regulatory Issues *(All Registrants)*

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

Electricity - Reliability Standards

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

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

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

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

Environmental Matters - Domestic

(All Registrants)

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

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

(PPL, LKE, LG&E and KU)

Air

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

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

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

National Ambient Air Quality Standards (NAAQS)

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

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

Mercury and Air Toxics Standards (MATS)

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

LG&E and KU have installed significant controls in connection with the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU are currently seeking KPSC approval for a compliance plan providing for installation of additional MATS-related controls, the cost of which is currently estimated at $5 million for LG&E and at $17 million for KU. PPL, LKE, LG&E and KU cannot predict the outcome of the MATS rule or its potential impact, if any, on plant operations, rate treatment or future capital or operating needs. See Note 6 for additional information.

New Source Review (NSR)

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

Climate Change

(All Registrants)

There is continuing momentum to address climate change. Most recently, in December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Based on EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025.

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

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

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

The EPA's Clean Power Plan

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

LG&E and KU are participating in the ongoing regulatory processes at the state and federal level in an effort to provide input into the state or federal implementation plan that will govern reductions in Kentucky. Various states, industry groups, and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, or future capital or operating needs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

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

Water/Waste

Coal Combustion Residuals (CCRs)

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

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

In connection with the final CCR rule, LG&E and KU recorded increases to existing AROs during 2015. See Note 19 for additional information. Further increases to AROs or changes to current capital plans or to operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

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

Effluent Limitations Guidelines (ELGs)

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

(PPL, LKE and LG&E)

Clean Water Act Section 316(b)

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

(All Registrants)

Waters of the United States (WOTUS)

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

Other Issues

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

Superfund and Other Remediation *(All Registrants)*

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

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

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. LG&E and KU lack information on the conditions of such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters. At December 31, 2015, PPL Electric has accrued $10 million representing its best estimate of the probable loss incurred to remediate additional sites previously owned or operated by PPL Electric predecessors or affiliates. Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which information is incomplete, the costs of remediation and other liabilities could be significant and may be as much as $29 million.

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

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

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

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to 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 December 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" and "Indemnification of lease termination and other divestitures." The total recorded liability at December 31, 2015 was $25 million for PPL and $18 million for LKE. The total recorded liability at December 31, 2014 was $26 million for PPL and $19 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at December 31, 2015	Expiration Date
PPL		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 11 (b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	114 (c)	
PPL Electric		
Guarantee of inventory value	29 (d)	2018
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 December 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) 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, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claims made and has disputed the demands. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. The parties are conducting preliminary settlement discussions, however, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the indemnification circumstances, but does not 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. LKE's proportionate share of OVEC's outstanding debt was $124 million at December 31, 2015, consisting of LG&E's share of $86 million and KU's share of $38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above 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.

14. Related Party Transactions

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

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

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. Wholesale suppliers are required to post collateral with

PPL Electric when: (a) the market price of electricity to be delivered by the wholesale suppliers exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail customers and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

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

PPL Services and LKS provide 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 recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the 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 years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2015	2014	2013
PPL Electric from PPL Services	$ 125	$ 151	$ 146
LKE from PPL Services	16	15	15
PPL Electric from PPL EU Services	60		
LG&E from LKS	155	140	136
KU from LKS	185	165	160

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

Intercompany Borrowings *(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. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2015 and 2014, $54 million and $41 million, respectively, was outstanding and reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2015 was 1.74% and 1.65% at December 31, 2014. Interest expense on the revolving line of credit was not significant for 2015, 2014 or 2013.

LKE maintains an agreement with a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2015 and 2014. The interest rate on the loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. Interest income on this note was not significant for 2015, 2014 or 2013.

LKE entered into a $400 million ten-year-note with PPL Capital Funding in November 2015. The proceeds were used to pay off an LKE senior unsecured note of the same amount maturing in November 2015. The interest rate on the note is equal to

3.5% with interest payments due in May and November. At December 31, 2015, the note was reflected in "Long-term debt to affiliate" on the Balance Sheet. Interest expense on this note was not significant for 2015.

Intercompany Derivatives *(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 17 for additional information on intercompany derivatives.

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

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31 was:

	PPL		
	2015	**2014**	**2013**
Other Income			
Interest income	$ 4	$ 1	
AFUDC - equity component	14	11	$ 10
Miscellaneous	6	7	4
Total Other Income	24	19	14
Other Expense			
Economic foreign currency exchange contracts (Note 17)	(122)	(121)	38
Charitable contributions	21	27	21
Miscellaneous	17	8	10
Total Other Expense	(84)	(86)	69
Other Income (Expense) - net	$ 108	$ 105	$ (55)

16. Fair Value Measurements

(All Registrants)

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

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2015				December 31, 2014			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 836	$ 836			$ 1,399	$ 1,399		
Short-term investments					120	120		
Restricted cash and cash equivalents (a)	33	33			31	31		
Price risk management assets (b):								
Foreign currency contracts	209		$ 209		130		$ 130	
Cross-currency swaps	86		86		29		28	$ 1
Total price risk management assets	295		295		159		158	1
Auction rate securities (c)	2			$ 2	2			2
Total assets	$ 1,166	$ 869	$ 295	$ 2	$ 1,711	$ 1,550	$ 158	$ 3
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	$ 71		$ 71		$ 156		$ 156	
Foreign currency contracts	1		1		2		2	
Cross-currency swaps					3		3	
Total price risk management liabilities	$ 72		$ 72		$ 161		$ 161	
PPL Electric								
Assets								
Cash and cash equivalents	$ 47	$ 47			$ 214	$ 214		
Restricted cash and cash equivalents (a)	2	2			3	3		
Total assets	$ 49	$ 49			$ 217	$ 217		
LKE								
Assets								
Cash and cash equivalents	$ 30	$ 30			$ 21	$ 21		
Cash collateral posted to counterparties (d)	9	9			21	21		
Total assets	$ 39	$ 39			$ 42	$ 42		
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 47		$ 47		$ 114		$ 114	
Total price risk management liabilities	$ 47		$ 47		$ 114		$ 114	
LG&E								
Assets								
Cash and cash equivalents	$ 19	$ 19			$ 10	$ 10		
Cash collateral posted to counterparties (d)	9	9			21	21		
Total assets	$ 28	$ 28			$ 31	$ 31		
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 47		$ 47		$ 81		$ 81	
Total price risk management liabilities	$ 47		$ 47		$ 81		$ 81	
KU								
Assets								
Cash and cash equivalents	$ 11	$ 11			$ 11	$ 11		
Total assets	$ 11	$ 11			$ 11	$ 11		
Liabilities								
Price risk management liabilities:								
Interest rate swaps					$ 33		$ 33	
Total price risk management liabilities					$ 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 "Price risk management assets", "Other current liabilities", "Other noncurrent assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(c) Included in "Other current 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.

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.

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL	$ 19,048	$ 21,218	$ 18,054	$ 20,466
PPL Electric	2,828	3,088	2,581	2,990
LKE	5,088	5,384	4,543	4,946
LG&E	1,642	1,704	1,345	1,455
KU	2,326	2,467	2,079	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.

17. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the 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, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

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

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

Interest rate risk

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

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

Foreign currency risk

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

Commodity price risk

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. 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 fuel-related expenses. In addition, LG&E's rates include certain mechanisms for natural gas supply. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Equity securities price risk

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

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

Credit Risk

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

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

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

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

Master Netting Arrangements

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

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

PPL, LKE and LG&E posted $9 million and $21 million of cash collateral under master netting arrangements at December 31, 2015 and 2014.

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

(All Registrants)

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

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 December 31, 2015, PPL held an aggregate notional value in interest rate swap contracts of $300 million that range in maturity through 2026.

At December 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 2015, 2014 and 2013, hedge ineffectiveness associated with interest rate derivatives was insignificant.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

As a result of the June 1, 2015 spinoff of PPL Energy Supply, all PPL cash flow hedges associated with PPL Energy Supply were ineffective and discontinued and therefore, reclassified into earnings during the second quarter of 2015 and reflected in discontinued operations for 2015. See Note 8 for additional information.

For PPL's remaining cash flow hedges, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2015 and 2013 and an insignificant amount reclassified into earnings associated with discontinued cash flow hedges in 2014.

At December 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 insignificant. 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. It is probable that realized gains and losses on all of these swaps will be recoverable 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. In September 2015, first mortgage bonds totaling $1.05 billion were issued (LG&E issued $550 million and KU issued $500 million) and all outstanding forward-starting interest rate swaps were terminated. Net cash settlements of $88 million were paid on the swaps that were terminated (LG&E and KU each paid $44 million). The settlements are included in "Regulatory assets" (noncurrent) on the Balance Sheets and "Cash Flows from Operating Activities" on the Statements of Cash Flows.

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 December 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 December 31, 2015 had a notional amount of £50 million (approximately $84 million based on contracted rates). The settlement dates of these contracts range from May 2016 through June 2016.

At December 31, 2015 and 2014, PPL had $19 million and $14 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2015, the total exposure hedged by PPL was approximately £1.8 billion (approximately $2.9 billion based on contracted rates). These contracts had termination dates ranging from January 2016 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 December 31, 2015 and 2014.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

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

	December 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)		$ 24		$ 5		$ 94		$ 5
Cross-currency swaps (b)	$ 35					3		
Foreign currency contracts	10		$ 94	1	$ 12		$ 67	
Total current	45	24	94	6	12	97	67	5
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps (b)				42		14		43
Cross-currency swaps (b)	51				29			
Foreign currency contracts			105		5		46	2
Total noncurrent	51		105	42	34	14	46	45
Total derivatives	$ 96	$ 24	$ 199	$ 48	$ 46	$ 111	$ 113	$ 50

(a) Included in "'Price risk management assets" of 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.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2015				
Cash Flow Hedges:				
Interest rate swaps	$ (34)	Interest Expense	$ (11)	
		Discontinued operations		$ (77)
Cross-currency swaps	60	Other Income (Expense) - net	49	
		Interest Expense	2	
Commodity contracts		Discontinued operations	13	7
Total	$ 26		$ 53	$ (70)
Net Investment Hedges:				
Foreign currency contracts	$ 9			
2014				
Cash Flow Hedges:				
Interest rate swaps	$ (91)	Interest Expense	$ (18)	$ 2
Cross-currency swaps	58	Other Income (Expense) - net	57	
		Interest Expense	4	
Commodity contracts		Discontinued operations	42	
Total	$ (33)		$ 85	$ 2
Net Investment Hedges:				
Foreign currency contracts	$ 23			

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2013				
Cash Flow Hedges:				
Interest rate swaps	$ 127	Interest Expense	$ (20)	
Cross-currency swaps	(41)	Other Income (Expense) - net	(28)	
		Interest Expense	1	
Commodity contracts		Discontinued operations	210	$ 1
Total	$ 86		$ 163	$ 1
Net Investment Hedges:				
Foreign currency contracts	$ (14)			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2015	2014	2013
Foreign currency contracts	Other Income (Expense) - net	$ 122	$ 121	$ (38)
Interest rate swaps	Interest Expense	(8)	(8)	(8)
	Total	$ 114	$ 113	$ (46)

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2015	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	$ (22)	$ (66)	
	Regulatory liabilities - noncurrent			$ 72

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2015	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	$ 1	$ (12)	$ 22

(LKE)

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

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

(a) Represents the location on the Balance Sheet.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets and liabilities.

Derivative Instruments	Location of Gain (Loss)	2015	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	$ (22)	$ (66)	
	Regulatory liabilities - noncurrent			$ 72

(LG&E)

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

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

(a) Represents the location on the balance sheet.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets and liabilities.

Derivative Instruments	Location of Gain (Loss)	2015	2014	2013
Interest rate swaps	Regulatory asset - noncurrent	$ (11)	$ (33)	
	Regulatory liabilities - noncurrent			$ 36

(KU)

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

	December 31, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps				$ 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 and liabilities.

Derivative Instruments	Location of Gain (Loss)	2015	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	$ (11)	$ (33)	
	Regulatory liabilities - noncurrent			$ 36

(LKE and LG&E)

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

	December 31, 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		42		43
Total noncurrent		42		43
Total derivatives		$ 47		$ 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.

Derivative Instruments	Location of Gain (Loss)	2015	2014	2013
Interest rate swaps	Interest Expense	$ (8)	$ (8)	$ (8)

Derivative Instruments	Location of Gain (Loss)	2015	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	$ 1	$ (12)	$ 22

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

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

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

	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2015								
Treasury Derivatives								
PPL	$ 295	$ 25		$ 270	$ 72	$ 25	$ 9	$ 38
LKE					47		9	38
LG&E					47		9	38
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 December 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	$ 28	$ 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)	19	19	19

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

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Total	
	2015	2014	2015	2014	2015	2014
Balance at beginning of period (a)	$ 3,005	$ 3,143	$ 662	$ 662	$ 3,667	$ 3,805
Effect of foreign currency exchange rates	(117)	(138)			(117)	(138)
Balance at end of period (a)	$ 2,888	$ 3,005	$ 662	$ 662	$ 3,550	$ 3,667

(a) There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$ 407	$ 300	$ 408	$ 250
Land and transmission rights	337	111	329	108
Emission allowances/RECs (b)	5		5	
Licenses and other	10	5	10	5
Total subject to amortization	759	416	752	363
Not subject to amortization due to indefinite life:				
Land and transmission rights	33		29	
Easements (c)	303		250	
Total not subject to amortization due to indefinite life	336		279	
Total	$ 1,095	$ 416	$ 1,031	$ 363

(a) Gross carrying amount includes the fair value at the acquisition date of the OVEC power purchase contract and coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. Offsetting regulatory liabilities were recorded related to these contracts, which are being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.
(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) Primarily from an increase in easements at WPD.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2015	2014	2013
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	51	47	51
Total	$ 57	$ 53	$ 57

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2016	2017	2018	2019	2020
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	27	9	9	9	8
Total	$ 33	$ 15	$ 15	$ 15	$ 14

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	$ 316	$ 108	$ 308	$ 105
Licenses and other	4	1	4	1
Total subject to amortization	320	109	312	106
Not subject to amortization due to indefinite life:				
Land and transmission rights	33		29	
Total	$ 353	$ 109	$ 341	$ 106

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2015, 2014 and 2013 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ 269	$ 252	$ 269	$ 210
Land and transmission rights	21	2	21	2
Emission allowances (b)	3		3	
OVEC power purchase agreement (c)	126	42	126	33
Total subject to amortization	$ 419	$ 296	$ 419	$ 245

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2015	2014	2013
Intangible assets with no regulatory offset			$ 1
Intangible assets with regulatory offset	$ 51	$ 47	51
Total	$ 51	$ 47	$ 52

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2016	2017	2018	2019	2020
Intangible assets with regulatory offset	$ 27	$ 9	$ 9	$ 9	$ 8

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ 124	$ 116	$ 124	$ 98
Land and transmission rights	7	1	7	1
Emission allowances (b)	1		1	
OVEC power purchase agreement (c)	87	29	87	23
Total subject to amortization	$ 219	$ 146	$ 219	$ 122

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2015	2014	2013
Intangible assets with regulatory offset	$ 24	$ 23	$ 23

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2016	2017	2018	2019	2020
Intangible assets with regulatory offset	$ 14	$ 6	$ 6	$ 6	$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ 145	$ 136	$ 145	$ 112
Land and transmission rights	14	1	14	1
Emission allowances (b)	2		2	
OVEC power purchase agreement (c)	39	13	39	10
Total subject to amortization	$ 200	$ 150	$ 200	$ 123

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2015	2014	2013
Intangible assets with no regulatory offset			$ 1
Intangible assets with regulatory offset	$ 27	$ 24	28
Total	$ 27	$ 24	$ 29

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2016	2017	2018	2019	2020
Intangible assets with regulatory offset	$ 13	$ 3	$ 3	$ 3	$ 2

19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, LG&E's and KU's accretion and depreciation expense are recorded as a regulatory asset, such that there is no earnings impact.

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

	PPL		LKE		LG&E		KU	
	2015	2014	2015	2014	2015	2014	2015	2014
ARO at beginning of period	$ 336	$ 301	$ 285	$ 252	$ 74	$ 74	$ 211	$ 178
Accretion	19	16	18	14	5	4	13	10
Obligations incurred	5	1	5	1	3		2	1
Changes in estimated cash flow or settlement date	235	25	234	23	98	1	136	22
Effect of foreign currency exchange rates	(2)	(2)						
Obligations settled	(7)	(5)	(7)	(5)	(5)	(5)	(2)	
ARO at end of period	$ 586	$ 336	$ 535	$ 285	$ 175	$ 74	$ 360	$ 211

LKE recorded increases of $228 million ($139 million at KU and $89 million at LG&E) to the existing AROs during 2015 as a result of an engineering study that was performed, in connection with the final CCR rule, providing clarity on projected CCR closure costs and revisions in the timing and amounts of future expected cash flows. Further increases to AROs or changes to current capital plans or to operating costs may be required as estimates of future cash flows are refined based on closure developments, groundwater monitoring results and regulatory or legal proceedings. In 2014, AROs were revalued primarily due to updates in the estimated cash flows for ash ponds based on updated cost estimates.

As of December 31, 2015, LKE had $50 million ($25 million at LG&E and KU) of the ARO balances classified as current liabilities. These current liabilities are primarily related to CCR closure costs expected to be incurred in 2016. As of December 31, 2014, substantially all of the ARO balances are classified as noncurrent liabilities.

See Note 13 for information on the final CCR rule and Note 6 for information on the rate recovery applications with the KPSC.

20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 were as follows.

		Unrealized gains (losses)			Defined benefit plans		
	Foreign currency translation adjustments	Available-for-sale securities	Qualifying derivatives	Equity investees' AOCI	Prior service costs	Actuarial gain (loss)	Total
PPL							
December 31, 2012	$ (149)	$ 111	$ 132	$ 1	$ (14)	$ (2,021)	$ (1,940)
Amounts arising during the year	138	67	45		2	71	323
Reclassifications from AOCI		(6)	(83)		6	135	52
Net OCI during the year	138	61	(38)		8	206	375
December 31, 2013	$ (11)	$ 172	$ 94	$ 1	$ (6)	$ (1,815)	$ (1,565)
Amounts arising during the year	(275)	35	(10)		5	(509)	(754)
Reclassifications from AOCI		(6)	(64)		4	111	45
Net OCI during the year	(275)	29	(74)		9	(398)	(709)
December 31, 2014	$ (286)	$ 201	$ 20	$ 1	$ 3	$ (2,213)	$ (2,274)
Amounts arising during the year	(234)	8	26		(9)	(366)	(575)
Reclassifications from AOCI		(2)	2	(1)		146	145
Net OCI during the year	(234)	6	28	(1)	(9)	(220)	(430)
Distribution of PPL Energy Supply (See Note 8)		(207)	(55)			238	(24)
December 31, 2015	$ (520)	$	$ (7)	$	$ (6)	$ (2,195)	$ (2,728)
LKE							
December 31, 2012				$ 1	$ (2)	$ (14)	$ (15)
Amounts arising during the year						28	28
Net OCI during the year						28	28
December 31, 2013				$ 1	$ (2)	$ 14	$ 13
Amounts arising during the year					(7)	(50)	(57)
Reclassifications from AOCI				(1)	1	(1)	(1)
Net OCI during the year				(1)	(6)	(51)	(58)
December 31, 2014				$	$ (8)	$ (37)	$ (45)
Amounts arising during the year					(3)	(4)	(7)
Reclassifications from AOCI					1	5	6
Net OCI during the year					(2)	1	(1)
December 31, 2015				$	$ (10)	$ (36)	$ (46)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2015 and 2014. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

Details about AOCI	PPL 2015	PPL 2014	Affected Line Item on the Statements of Income
Available-for-sale securities	$ 4	$ 13	Other Income (Expense) - net
Total Pre-tax	4	13	
Income Taxes	(2)	(7)	
Total After-tax	2	6	
Qualifying derivatives			
Interest rate swaps	(11)	(16)	Interest Expense
	(77)		Discontinued operations
Cross-currency swaps	49	57	Other Income (Expense) - net
	2	4	Interest Expense
Commodity contracts	20	42	Discontinued operations
Total Pre-tax	(17)	87	
Income Taxes	15	(23)	
Total After-tax	(2)	64	
Equity Investees' AOCI	1		Other Income (Expense) - net
Total Pre-tax	1		
Income Taxes			
Total After-tax	1		
Defined benefit plans			
Prior service costs		(7)	
Net actuarial loss	(192)	(145)	
Total Pre-tax	(192)	(152)	
Income Taxes	46	37	
Total After-tax	(146)	(115)	
Total reclassifications during the year	$ (145)	$ (45)	

21. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

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

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

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

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries

(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2015				
Operating revenues	**$ 2,230**	**$ 1,781**	**$ 1,878**	**$ 1,780**
Operating income	**890**	**638**	**686**	**617**
Income from continuing operations after income taxes	**552**	**250**	**396**	**405**
Income (loss) from discontinued operations (net of income taxes) (d)(e)	**95**	**(1,007)**	**(3)**	**(6)**
Net income (loss) (e)	**647**	**(757)**	**393**	**399**
Income from continuing operations after income taxes available to PPL common shareowners: (b)				
Basic EPS	**0.83**	**0.37**	**0.59**	**0.60**
Diluted EPS	**0.82**	**0.37**	**0.59**	**0.60**
Net income (loss) available to PPL common shareowners: (b)				
Basic EPS	**0.97**	**(1.13)**	**0.58**	**0.59**
Diluted EPS	**0.96**	**(1.13)**	**0.58**	**0.59**
Dividends declared per share of common stock (c)	**0.3725**	**0.3725**	**0.3775**	**0.3775**
Price per common share:				
High	**$ 36.38**	**$ 34.85**	**$ 33.58**	**$ 34.75**
Low	**31.40**	**29.45**	**29.41**	**32.60**
2014				
Operating revenues	$ 2,178	$ 1,849	$ 1,879	$ 1,946
Operating income	801	678	688	700
Income from continuing operations after income taxes	389	230	410	408
Income (loss) from discontinued operations (net of income taxes) (d)(f)	(73)	(1)	87	287
Net income (f)	316	229	497	695
Income from continuing operations after income taxes available to PPL common shareowners: (b)				
Basic EPS	0.61	0.35	0.61	0.62
Diluted EPS	0.61	0.34	0.61	0.62
Net income available to PPL common shareowners: (b)				
Basic EPS	0.50	0.35	0.74	1.04
Diluted EPS	0.49	0.34	0.74	1.04
Dividends declared per share of common stock (c)	0.3725	0.3725	0.3725	0.3725
Price per common share:				
High	$ 33.24	$ 35.56	$ 35.52	$ 38.14
Low	29.40	32.32	31.79	32.09

(a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

(b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.

(c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

(d) In the second quarter of 2015, PPL completed the spinoff of PPL Energy Supply substantially representing PPL's Supply segment. Accordingly, the previously reported operating results for PPL's Supply segment have been reclassified as discontinued operations. See Note 8 to the Financial Statements for additional information.

(e) The second quarter of 2015 includes a loss of $879 million from the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

(f) The fourth quarter of 2014 includes a gain of $137 million (after-tax) from the sale of Hydroelectric generating facilities of PPL Montana. See Note 8 for additional information.

Management's Report on Internal Control over Financial Reporting

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2015. The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WEM Limited - also referred to as PPL WEM is an indirect UK subsidiary of PPL Global which during a reorganization in October 2014 transferred WPD (East Midlands) and WPD (West Midlands) to a subsidiary of WPD plc.

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. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

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 PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 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.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

401(h) account(s) - A sub account established within a qualified pension trust to provide for the payment of retiree medical costs.

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

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

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

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

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

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

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

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

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

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

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.

DUoS - Distribution Use of System. This forms the majority of WPD's revenues and is the charge to electricity suppliers who are WPD's customers and use WPD's network to distribute electricity.

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

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

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

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

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

EPS - earnings per share.

Equity Unit(s) - refers collectively to the 2011 and 2010 Equity Units.

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.

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

GWh - gigawatt-hour, one million kilowatt hours.

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

IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of the 2012 PPL Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

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.

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

kV - kilovolt.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

LTIIP - Long Term Infrastructure Improvement Plan. A plan that must be approved by the PUC prior to requesting the DSIC mechanism. The plan must include identification of the types and age of property for which the company is requesting recovery, a schedule of replacement, general description of location and quantity, projected annual expenditures and the manner in which replacement will ensure and maintain adequate, efficient, safe, reliable and reasonable service.

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

MMBtu - One million British Thermal Units.

MOD - A mechanism applied in the U.K. to adjust allowed base demand revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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

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

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

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

OCI - other comprehensive income or loss.

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

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

PEDFA - Pennsylvania Economic Development Financing Authority.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

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

PP&E - property, plant and equipment.

PPL 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.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

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

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - Renewable Energy Credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the PJM grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

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.

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

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

SIP - PPL Corporation's 2012 Stock Incentive Plan.

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

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

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

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

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

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

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

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

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

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

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

Totex (total expenditures) - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

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.

TRU - a mechanism applied in the U.K. to true-up inflation estimates used in determining base demand revenue.

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

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.

Reconciliation of Net Income to Earnings from Ongoing Operations

	(Millions of Dollars)		(Per Share - Diluted)	
	2015	**2014**	**2015**	**2014(a)**
Net Income	**$682**	$1,737	**$1.01**	$2.61
Less: Special Items (expense) benefit:(b)				
Foreign currency-related economic hedges	**55**	127	**0.08**	0.19
Spinoff of the Supply segment	**(943)**	232	**(1.39)**	0.35
Change in U.K. tax rate	**78**		**0.11**	
Change in WPD line loss accrual		(52)		(0.08)
Settlement of certain income tax positions	**18**		**0.03**	
Certain valuation allowances	**(12)**		**(0.02)**	
Other (net)	**(3)**	(2)	**(0.01)**	(0.01)
Total Special Items	**(807)**	305	**(1.20)**	0.45
Dissynergies-Spinoff of Supply segment expense (benefit):(c)				
Indirect operation and maintenance		47		0.07
Interest expense		29		0.05
Depreciation		7		0.01
Total Dissynergies - Spinoff of Supply segment		83		0.13
Earnings from Ongoing Operations	**$1,489**	$1,349	**$2.21**	$2.03

(a) The "If-Converted Method" has been applied to PPL's 2011 Equity Units, resulting in $9 million of interest charges (after-tax) being added back to earnings and approximately 11 million shares of PPL Common Stock being treated as outstanding. Both adjustments are only for purposes of calculating diluted earnings per share.

(b) Special items include:

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

See Combined Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on special items.

(c) Represents 2014 costs allocated to the Supply segment that remained with PPL after the spinoff of the Supply segment.

2016 Earnings Forecast by Segment

The 2016 forecast range for earnings is $2.25 to $2.45 per share, with a midpoint of $2.35 per share. The midpoint represents an increase of more than 6 percent compared to 2015 earnings from ongoing operations of $2.21 per share.

Per share	***2016 Earnings Forecast Midpoint***
U.K. Regulated	$ 1.43
Kentucky Regulated	0.57
Pennsylvania Regulated	0.47
Corporate and Other(1)	(0.12)
Total	$ 2.35

(1) *This category primarily includes unallocated corporate-level financing and other costs.*

U.K. Regulated Segment

PPL projects relatively flat segment earnings in 2016 compared with 2015, due to higher financing costs, depreciation expense, currency, taxes and other expenses, partially offset by lower operation and maintenance expense, including pension expense, and higher gross margins. The 2016 foreign currency exposure for this segment is 95 percent hedged at an average rate of $1.56 per pound.

Kentucky Regulated Segment

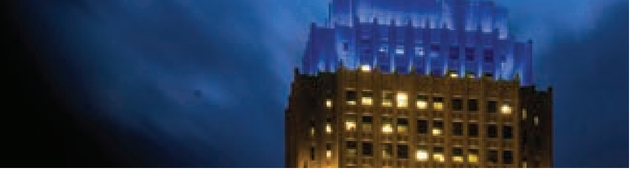
PPL projects higher segment earnings in 2016 compared with 2015, primarily driven by electric and gas base rate increases effective July 1, 2015, and higher returns on additional environmental capital investments, partially offset by higher depreciation expense and higher financing costs.

Pennsylvania Regulated Segment

PPL projects higher segment earnings in 2016 compared with 2015, primarily driven by a distribution base rate increase effective Jan. 1, 2016, and higher transmission margins, partially offset by higher depreciation, higher financing costs and a benefit received in 2015 from the release of a gross receipts tax reserve.

Corporate and Other

PPL projects costs to be relatively flat in this category in 2016 compared with 2015.



DIRECTORS & OFFICERS

DIRECTORS

Rodney C. Adkins, 57, President of 3RAM Group, LLC, an investment, consulting and property management firm. He retired as Senior Vice President of International Business Machines Corporation, a globally integrated technology and consulting company.

John W. Conway, 70, retired as Chief Executive Officer of Crown Holdings, Inc., an international manufacturer of packaging products for consumer goods. He remains Chairman of the Board of Crown Holdings.

Steven G. Elliott, 69, retired as Senior Vice Chairman of The Bank of New York Mellon Corporation, an investment management and investment servicing company.

Raja Rajamannar, 54, Chief Marketing & Communications Officer, and President, Heathcare, of MasterCard International Incorporated, a technology company in the global payments industry.

Craig A. Rogerson, 59, Chairman, President and Chief Executive Officer of Chemtura Corporation, a global manufacturer and marketer of specialty chemicals, serving a broad spectrum of industrial markets.

William H. Spence, 59, Chairman, President and Chief Executive Officer of PPL Corporation.

Natica von Althann, 65, a founding partner of C&A Advisors, a consulting firm in the financial services and risk management areas, from 2009 until 2013. She retired in 2008 as the Senior Credit Risk Management Executive for Bank of America and Chief Credit Officer of U.S. Trust, an investment management company.

Keith H. Williamson, 63, Executive Vice President, Secretary and General Counsel of Centene Corporation, a provider of Medicaid-managed care and specialty healthcare services for under-insured and uninsured individuals.

Armando Zagalo de Lima, 57, retired as Executive Vice President of Xerox Corporation, a multinational enterprise for business process and document management.

BOARD COMMITTEES

Executive Committee

William H. Spence, Chair
John W. Conway
Steven G. Elliott
Craig A. Rogerson
Natica von Althann

Audit Committee

Steven G. Elliott, Chair
Rodney C. Adkins
Raja Rajamannar
Craig A. Rogerson
Keith H. Williamson
Armando Zagalo de Lima

Compensation, Governance and Nominating Committee

Craig A. Rogerson, Chair
John W. Conway
Raja Rajamannar
Natica von Althann

Finance Committee

Natica von Althann, Chair
Rodney C. Adkins
John W. Conway
Steven G. Elliott
Keith H. Williamson
Armando Zagalo de Lima

EXECUTIVE OFFICERS

William H. Spence, Chairman, President and Chief Executive Officer, PPL Corporation
Joanne H. Raphael, Senior Vice President, General Counsel and Corporate Secretary, PPL Corporation
Vincent Sorgi, Senior Vice President and Chief Financial Officer, PPL Corporation
Gregory N. Dudkin, President, PPL Electric Utilities Corporation
Victor A. Staffieri, Chairman, President and Chief Executive Officer, LG&E and KU Energy LLC
Robert A. Symons, Chief Executive, Western Power Distribution
Joseph P. Bergstein, Jr., Vice President-Investor Relations and Treasurer, PPL Corporation
Stephen K. Breininger, Vice President and Controller, PPL Corporation

Annual Meeting

Shareowners are invited to attend the annual meeting to be held Wednesday, May 25, 2016, at the PPL Center at 701 Hamilton Street, Allentown, Pennsylvania, in Lehigh County. The meeting will begin at 9 a.m. Eastern Time.

Stock Exchange Listing

PPL Corporation common stock is listed on the New York Stock Exchange (NYSE). The symbol is PPL. On March 11, 2016, the closing price per share was $36.56, and there were 59,846 shareowners of record.

2015

	High	Low	Dividends Declared
1st quarter	$36.74	$31.31	$0.3725
2nd quarter	35.09	29.33	0.3725
3rd quarter	33.83	29.18	0.3775
4th quarter	35.00	32.22	0.3775

2014

	High	Low	Dividends Declared
1st quarter	$33.24	$29.40	$0.3725
2nd quarter	35.56	32.32	0.3725
3rd quarter	35.52	31.79	0.3725
4th quarter	38.14	32.09	0.3725

The company has paid cash dividends on its common stock in every quarter since 1946. The annualized dividend was $1.50 per share in 2015 and $1.49 per share in 2014. On Feb. 4, 2016, PPL declared a quarterly dividend of $0.38 per share (equivalent to $1.52 annualized), effective with the dividend paid April 1, 2016, to shareowners of record on March 10, 2016.

Dividend Calendar

The planned dates for consideration of the declaration of dividends by the Board of Directors or its Executive Committee for the balance of 2016 are May 25, Aug. 26 and Nov. 18. Subject to the declaration, dividends are paid on the first business day of April, July, October and January. The record dates for dividends for the balance of 2016 are expected to be June 10, Sept. 9 and Dec. 9.

PPL's Website: www.pplweb.com

Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website may subscribe to receive automated email alerts for SEC filings, earnings news releases, daily stock prices and other financial news.

Financial reports, which are available at www.pplweb.com, will be mailed without charge upon request by contacting:

PPL Treasury Dept.
Two North Ninth Street, Allentown, PA 18101
Email: invserv@pplweb.com
Telephone: PPL Corporate Offices, 610-774-5151, or
Wells Fargo Shareowner Services, 1-800-345-3085

Lost Dividend Checks

Dividend checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Dividend Reinvestment & Direct Stock Purchase Plan (Plan)

PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to $25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL Corporation common stock fully or partially reinvested in PPL common stock, or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System

PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Online Account Access

Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Shareowner Inquiries, Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator

Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Toll-free: 1-800-345-3085
Outside U.S.: 1-651-453-2129
Website: shareowneronline.com

Corporate Offices

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