PPL Corp
Form 10-K
February 17, 2017

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2016

OR

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

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

One Quality Street
Lexington, Kentucky 40507-1462
(502) 627-2000

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc.	
2007 Series A due 2067	New York Stock Exchange
2013 Series B due 2073	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

PPL Corporation	[X]
PPL Electric Utilities Corporation	[X]
LG&E and KU Energy LLC	[X]
Louisville Gas and Electric Company	[X]
Kentucky Utilities Company	[X]

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

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

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

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

As of June 30, 2016, PPL Corporation had 677,548,721 shares of its $0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was $25,577,464,218. As of January 31, 2017, PPL Corporation had 680,602,000 shares of its $0.01 par value Common Stock outstanding.

As of January 31, 2017, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2017, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2017, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2017 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016. Such Statements will provide the information required by Part III of this Report.

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

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which holds a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

WPD plc - Western Power Distribution plc, 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.

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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.

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 authorized the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

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

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 the 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.

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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.

DDCP - Directors Deferred Compensation Plan.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DOJ - U.S. Department of Justice.

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. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency. 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 that 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 "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

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

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

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

EPS - earnings per share.

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Equity Unit(s) - refers to the 2011 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.

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.

GWh - gigawatt-hour, one million kilowatt hours.

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

IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

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.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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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.

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 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.

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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.

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

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

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

RIIO-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, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

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

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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.

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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 - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus 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.

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.

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Forward-looking Information

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the effect of the June 23, 2016 referendum in the U.K. to withdraw from the European Union and any actions taken in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
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- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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

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

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PART I

ITEM 1. BUSINESS

General

(All Registrants)

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

PPL's principal subsidiaries at December 31, 2016 are shown below (* denotes a Registrant).

PPL Corporation*

PPL Capital Funding
Provides financing for the operations of PPL and certain subsidiaries

PPL Global
Engages in the regulated distribution of electricity in the U.K.

LKE*

PPL Electric*
Engages in the regulated transmission and distribution of electricity in Pennsylvania

LG&E*
Engages in the regulated generation, transmission,

KU*
Engages in the regulated generation, transmission,

	distribution and sale of electricity and the regulated distribution and sale of natural gas in Kentucky	distribution and sale of electricity, primarily in Kentucky
U.K. Regulated Segment	Kentucky Regulated Segment	Pennsylvania Regulated Segment

PPL Global is not a registrant, however, unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished contemporaneously with this report on a Form 8-K with the SEC.

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

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

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

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engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

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

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

(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. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL's shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

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

See Note 8 to the Financial Statements for additional information.

Segment Information

(PPL)

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

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

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2016:			
Operating Revenues (in billions)	$ 2.2	$ 3.1	$ 2.2
Net Income (in millions)	$ 1,246	$ 398	$ 338
Electricity delivered (GWh)	74,728	33,006	36,645
At December 31, 2016:			
Regulatory Asset Base (in billions) (a)	$ 8.5	$ 8.9	$ 6.1
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. For U.K. Regulated, RAV is lower for 2016 compared with 2015 due to the effect of foreign currency exchange rates.

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

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

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

• U.K. Regulated Segment (PPL)

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

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

	2016	2015	2014
Operating Revenues	$2,207	$2,410	$2,621

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.

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 for 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 2016/17 regulatory year. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - U.K. Distribution Revenue Reduction" for additional information.

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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 performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues or penalties, adjustments for over- or under-recovery from prior periods 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 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
- continue to stimulate innovation.

Additionally, from a financial perspective the RIIO-ED1 framework:

- regulates revenues for the DNOs in real terms using 2012/13 prices;
- inflates revenue components using the RPI beginning March 31, 2013, which has the effect of inflating RAV, with respect to base demand revenue;
- 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 general pass-through for costs over which the DNOs have no control (i.e., Ofgem fees, National Grid transmission charges and property taxes);
- provides a tax allowance based on Ofgem's notional tax charge, which may not equal the actual corporate tax paid;
- extends the recovery period for 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 average asset life for RAV additions during RIIO-ED1 to approximately 35 years. 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 successful DNOs an incentive to be fast-tracked through the regulatory approval process, equivalent to 2.5% of Totex during the 8-year price control period; 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 Ofgem-accepted RIIO-ED1 business plans are:

- all four DNO business plans were accepted for fast-track status (fast-track incentive is worth approximately $35 million annually for WPD assuming a $1.30/£ 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 20-year trailing average for 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, reducing the expected incentive revenues WPD can earn in RIIO-ED1 compared to DPCR5.

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WPD's combined business plans include funding for total expenditures of approximately $16.6 billion over the eight-year period (assuming a $1.30/£ foreign currency exchange rate), broken down as follows:

- Totex - $11.0 billion ($8.8 billion additions to RAV; $2.2 billion fast pot);
- Pension deficit funding - $1.6 billion;
- Cost of debt recovery - $1.3 billion;
- Property taxes, Ofgem fees and National Grid transmissions charges - $2.1 billion; and
- Corporate income taxes recovery - $600 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 - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive 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 from prior periods;
- adjustments for over- or under-recovery of allowed revenue from prior periods; 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 profiling methodology and a lower weighted-average cost of capital. Base demand revenue will then increase by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2018 and by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

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 TRU for the 2015/16 regulatory year was a $40 million reduction to revenue and will reduce base demand revenue in calendar years 2017 and 2018 by $27 million and $13 million, respectively.
The projected TRU for the 2016/17 regulatory year is a $6 million reduction to revenue and will reduce base demand revenue in calendar years 2018 and 2019 by $4 million and $2 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

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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 included the TIM for the 2015/16 regulatory year as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of $15 million will reduce base demand revenue in calendar years 2017 and 2018 by $10 million and $5 million, respectively.
The projected MOD for the 2016/17 regulatory year is a $52 million reduction to revenue and will reduce base demand revenue in calendar years 2018 and 2019 by $35 million and $17 million, respectively.

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

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 incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentives that 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 in 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 interruptions is calculated as the annual average level of planned interruptions and minutes lost over a previous three-year period. The targets for unplanned interruptions for RIIO-ED1 are 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, that WPD has earned during DPCR5 and RIIO-ED1:

Regulatory Year Ended	Incentive Earned (in millions)	Regulatory Year Ended Incentive Included in Revenue
March 2012	$ 83	March 2014
March 2013	104	March 2015
March 2014	117	March 2016

March 2015	110	March 2017
March 2016	99	March 2018

Based on applicable GAAP, incentive revenues are recorded 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 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

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period. Conversely, WPD could over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore, the 2014/15 over/under-recovery adjustment will occur in the 2016/17 regulatory year. Under this mechanism, in the 2016/17 regulatory year, WPD will recover the £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected by $39 million in calendar year 2016 and are projected to be positively affected by $16 million in calendar year 2017.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for 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.

See Note 1 to the Financial Statements for additional information on revenue recognition.

See "Item 1A. Risk Factors - Risks Related to U.K. Regulated Segment" for additional information on the risks associated with the U.K. Regulated Segment.

Customers

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

•Kentucky Regulated Segment (PPL)

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

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 407,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 324,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 521,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and four 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.

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

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	$834	27	$816	26	$815	26
Industrial	601	19	628	20	627	20
Residential	1,261	40	1,245	40	1,281	40
Retail - other	288	9	267	9	279	9
Wholesale - municipal	116	4	114	4	109	3
Wholesale - other (a)	41	1	45	1	57	2
Total	$3,141	100	$3,115	100	$3,168	100

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(a) Includes wholesale power and transmission revenues.

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	$442	31	$436	30	$433	28
Industrial	185	13	199	14	194	13
Residential	627	44	633	44	650	43
Retail - other	135	9	117	8	130	8
Wholesale - other (a) (b)	41	3	59	4	126	8
Total	$1,430	100	$1,444	100	$1,533	100

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

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
KU						
Commercial	$392	22	$380	22	$382	22
Industrial	416	24	429	25	433	25
Residential	634	36	612	35	631	36
Retail - other	153	9	150	9	149	9
Wholesale - municipal	116	7	114	7	109	6
Wholesale - other (a) (b)	38	2	43	2	33	2
Total	$1,749	100	$1,728	100	$1,737	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 indirectly impact LKE's natural gas revenues. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact LG&E's profitability. Some large industrial and commercial customers, however, may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

Power Supply

At December 31, 2016, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,011 MW, of which 2,916 MW related to LG&E and 5,095 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

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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 2016, LKE's Kentucky power plants generated the following amounts of electricity.

	GWh		
Fuel Source	LKE	LG&E	KU
Coal (a)	28,029	11,722	16,307
Oil / Gas	6,357	1,463	4,894
Hydro	408	321	87
Total (b)	34,794	13,506	21,288

(a) Includes 864 GWh of power generated by and purchased from OVEC for LKE, 598 GWh for LG&E and 266 GWh for KU.

(b) This generation represents a 0.1% increase for LKE, a 0.6% decrease for LG&E and a 0.4% increase for KU from 2015 output.

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

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

As a result of environmental requirements, KU retired two coal-fired units, with a combined capacity 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 capacity 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. In June 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site.

In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete.

Fuel Supply

Coal continues to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. As a result of Cane Run Unit 7 being placed into operation during 2015, natural gas is also a prominent fuel. 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 2023 and augment their coal supply agreements with spot market purchases, as needed.

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

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

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

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(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 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services can be expected to be at their highest. At December 31, 2016, 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 durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 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 also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 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 Marcellus and Utica production areas.

(PPL, LKE, LG&E and KU)

Transmission

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.

Rates

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

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

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

KU's rates to 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). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, nine municipalities submitted notices of termination, under the notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date.

Rate Case

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately $103 million at KU and an increase in annual base electricity and gas rates of approximately $94 million and $14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and

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electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. On December 30, 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period.

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

•Pennsylvania Regulated Segment (PPL)

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

(PPL and PPL Electric)

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

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

	2016		2015		2014	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	$1,327	61	$1,338	63	$1,285	63
Industrial	42	2	58	3	52	3
Commercial	338	16	377	18	367	18
Other (a)	(4)	—	(44)	(2)	5	—
Transmission	453	21	395	18	335	16
Total	$2,156	100	$2,124	100	$2,044	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.

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Rates and Regulation

Transmission

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

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

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

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

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

Distribution

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

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

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

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

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

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In

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2016, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 49% of residential, 86% 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 included 4 solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of 8 solicitations for electricity supply held semiannually in April and October. Pursuant to both the current and future plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

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

•Corporate and Other (PPL)

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

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

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

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or extreme winter weather make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Environmental Matters" in Note 13 to the Financial Statements for additional information regarding climate change.

FINANCIAL CONDITION

See "Financial Condition" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information

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concerning projected capital expenditure requirements for 2017 through 2021. See Note 13 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2017 through 2021. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information and Note 6 to the Financial Statements for information related to the recovery of environmental compliance costs.

EMPLOYEE RELATIONS

At December 31, 2016, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions.

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,689	6,274	49 %
PPL Electric	1,837	1,150	63 %
LKE	3,507	819	23 %
LG&E	1,023	696	68 %
KU	919	123	13 %

PPL's domestic workforce has 2,173 employees, or 36%, that are members of labor unions. A three-year bargaining agreement with the IBEW labor union, which expires in May 2017, covers 1,150 PPL Electric employees and 204 other employees. LG&E has 696 employees and KU has 69 employees that are represented by an IBEW labor union. LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2017 and August 2018. The KU IBEW agreement includes a wage reopener in 2017. KU has 54 employees that are represented by a United Steelworkers of America (USWA) labor union, under an agreement that expires in August 2017.

WPD has 4,101 employees who are members of labor unions (or 62% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 41% of its union workforce. WPD's Electricity Business Agreement, which covers 4,035 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investors heading of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

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ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

(PPL)

Risks Relating to the Spinoff of PPL Energy Supply and Formation of Talen Energy Corporation

If the spinoff of PPL Energy Supply does not qualify as a tax-free distribution under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the "Code"), including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareowners may be required to pay substantial U.S. federal income taxes.

Among other requirements, the completion of the June 1, 2015 spinoff of PPL Energy Supply and subsequent combination with RJS Power was conditioned upon PPL's receipt of a legal opinion of tax counsel to the effect that the spinoff will qualify as a reorganization pursuant to Section 368(a)(1)(D) and a tax-free distribution pursuant to Section 355 of the Code. Although receipt of such legal opinion was a condition to completion of the spinoff and subsequent combination, that legal opinion is not binding on the IRS. Accordingly, the IRS could reach conclusions that are different from those in the tax opinion. If, notwithstanding the receipt of such opinion, the IRS were to determine the distribution to be taxable (including as a result of the subsequent acquisition of Talen Energy by affiliates of Riverstone on December 6, 2016 (the "Talen Acquisition")), PPL would, and its shareowners could, depending on their individual circumstances, recognize a tax liability that could be substantial. In addition, notwithstanding the receipt of such opinion, if the IRS were to determine the merger to be taxable (including as a result of the Talen Acquisition), PPL shareowners may, depending on their individual circumstances, recognize a tax liability that could be material.

In addition, the spinoff would be taxable to PPL pursuant to Section 355(e) of the Code if there were a 50% or greater change in ownership (by vote or value) of either PPL or Talen Energy (including as a result of the Talen Acquisition), directly or indirectly, as part of a plan or series of related transactions that include the spinoff. Because PPL's shareowners collectively owned more than 50% of Talen Energy's common stock following the spinoff and combination with RJS Power, the combination alone would not cause the spinoff to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the spinoff, or of Talen Energy after the combination (including the Talen Acquisition), were considered to be part of a plan or series of related transactions that include the spinoff. PPL is not aware of any such plan or series of transactions that include the spinoff.

In connection with the closing of the Talen Acquisition, Talen Energy was required to deliver to PPL a legal opinion of tax counsel concluding that the Talen Acquisition would not affect the tax-free status of the spinoff. As described above, such legal opinion is not binding on the IRS, and accordingly, the IRS could reach conclusions that are different from those expressed in the legal opinion.

Risks related to our U.K. Segment

Our U.K. distribution business contributes a significant amount of PPL's earnings and exposes us to the following additional risks related to operating outside the U.S., including risks associated with changes in U.K. laws and regulations, taxes, economic conditions and political conditions and policies of the U.K. government and the European Union. These risks may adversely impact the results of operations of our U.K. distribution business or affect our ability to access U.K. revenues for payment of distributions or for other corporate purposes in the U.S.

- changes in laws or regulations relating to U.K. operations, including rate regulations, operational performance and tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;

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- regulatory reviews of tariffs for distribution companies;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings;
- compliance with U.S. foreign corrupt practices laws; and
- prolonged periods of low inflation or deflation.

PPL's earnings may be adversely affected as a result of the June 23, 2016 referendum in the U.K. to withdraw from the European Union.

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union, including the nature and duration of negotiations between the U.K. and European Union as to the terms of any withdrawal. PPL cannot predict the impact, either short-term or long-term, on foreign exchange rates or PPL’s long-term financial condition that may be experienced as a result of any actions that may be taken by the U.K. government to withdraw from the European Union, although such impacts could be significant.

We are subject to foreign currency exchange rate risks because a significant portion of our cash flows and reported earnings are currently generated by our U.K. business operations.

These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses, and our strategy to hedge against such changes, and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed to PPL or used for repayments of intercompany loans or other general corporate purposes. In addition, PPL's consolidated reported earnings on a GAAP basis may be subject to earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with GAAP requirements.

Our U.K. segment is subject to inflationary risks.

Our U.K. distribution business is subject to the risks associated with fluctuations in RPI in the U.K., which is a measure of inflation.

In RIIO-ED1, WPD's base demand revenue was established by Ofgem in 2012/13 prices. Base demand revenue is then increased by RPI for each year to arrive at the amount of revenue WPD can collect in tariffs. The RPI is forecasted and subject to true-up in subsequent years. The fluctuations between forecasted and actual RPI can then result in variances in base demand revenue. While WPD also has debt that is indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base demand revenue and offsets would likely affect different calendar years. Further, as RAV is indexed to RPI under U.K. regulations, a reduction in RPI could adversely affect the debt/RAV ratio, potentially limiting future borrowings at WPD's holding company.

Our U.K. delivery business is subject to revenue variability based on operational performance.

Our U.K. delivery businesses operate under an incentive-based regulatory framework. Managing operational risk and delivering agreed-upon performance are critical to the U.K. Regulated segment's financial performance. Disruption to these distribution networks could reduce profitability both directly by incurring costs for network restoration and also through the system of penalties and rewards that Ofgem administers relating to customer service levels.

A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL.

Ofgem has powers to levy fines of up to ten percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Ofgem also has formal powers to propose modifications to each distribution license and there can be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

(PPL and LKE)

Risk Related to Registrant Holding Companies

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PPL and LKE are holding companies and their cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their respective subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by their subsidiaries. Accordingly, these Registrants' cash flows and ability to meet debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans, advances or repayment of loans and advances. The subsidiaries are separate legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of the Registrants' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's and LKE's rights and the rights of their creditors, including rights of debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts.

(PPL Electric, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to each of the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

The operation of our businesses is subject to cyber-based security and integrity risks.

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our transmission and distribution operations, as well as our generation plants, are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and sensitive customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request and existing rates may be challenged.

The rates we charge our utility customers must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Although rate regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full or timely recovery of our costs or an adequate return on our capital investments. Federal or state agencies, intervenors and other permitted parties may challenge our current or future rate requests, structures or mechanisms, and ultimately reduce, alter or limit the rates we receive. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our domestic regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

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Our domestic utility businesses are subject to significant and complex governmental regulation.

In addition to regulating the rates we charge, various federal and state regulatory authorities regulate many aspects of our domestic utility operations, including:

- the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting, construction and operation of facilities;
- mandatory reliability and safety standards under the Energy Policy Act of 2005 and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate transactions;
- acquisition and disposal of utility assets and issuance of securities; and
- various other matters, including energy efficiency.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties which may not be recoverable from customers.

Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.

We are experiencing an increase in attrition due primarily to the number of retiring employees, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel, and to attract and retain new personnel, due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

We are or may be subject to costs of remediation of environmental contamination at facilities owned or operated by our former subsidiaries.

We may be subject to liability for the costs of environmental remediation of property now or formerly owned by us with respect to substances that we may have generated regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. We also have current or previous ownership interests in sites associated with the production of manufactured gas for which we may be liable for additional costs related to investigation, remediation and monitoring of these sites. Remediation activities associated with our former manufactured gas plant operations are one source of such costs. Citizen groups or others may bring litigation regarding environmental issues including claims of various types, such as property damage, personal injury and citizen challenges to compliance decisions on the enforcement of environmental requirements, which could subject us to penalties, injunctive relief and the cost of litigation. We cannot predict the amount and timing of all future expenditures (including the potential or magnitude of fines or penalties) related to such environmental matters, although they could be material.

Risks Specific to Kentucky Regulated Segment

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(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid wastes, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, 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 forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are also applicable to the operations of our key suppliers or customers, such as coal producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our related compliance strategies entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require new technologies or aggressive schedules for construction, permitting and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

We are subject to operational, regulatory and other risks regarding certain significant developments in environmental regulation affecting coal-fired generation facilities.

Certain regulatory initiatives have been implemented or are under development which could represent significant developments or changes in environmental regulation and compliance costs or risk associated with the combustion of coal as occurs at LG&E's and KU's coal-fired generation facilities. In particular, such developments include the federal Clean Power Plan regulations governing greenhouse gas emissions at existing or new generation facilities, the federal Coal Combustion Residuals regulations governing coal by-product storage activities and the federal Effluent Limitations Guidelines governing water discharge activities. Such initiatives have the potential to require significant changes in generation portfolio composition and in coal combustion byproduct handling and disposal or water treatment and release facilities and methods from those historically used or currently available. Consequently, such developments may involve increased risks relating to the uncertain cost, efficacy and reliability of new technologies, equipment or methods. Compliance with such regulations could result in significant changes to LG&E's and KU's operations or commercial practices and material additional capital or operating expenditures. Such circumstances could also involve higher risks of compliance violations or of variations in rate or regulatory treatment when compared to existing frameworks.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

We plan to selectively pursue growth of our transmission capacity, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to pursue expansion of our transmission capacity over the next several years. We plan to do this through the potential construction or acquisition of transmission projects and capital investments to upgrade transmission infrastructure. These types of projects involve numerous risks. With respect to the construction or acquisition of transmission projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of

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both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory construction contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project.

We face competition for transmission projects, which could adversely affect our rate base growth.

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. 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. Increased competition can result in lower rate base growth.

We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.

PPL Electric is subject to Act 129 which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing Alternative Energy Portfolio Standard. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand. Utilities not meeting these Act 129 requirements are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

Risks Related to All Segments

(All Registrants)

Increases in electricity prices and/or a weak economy, can lead to changes in legislative and regulatory policy, including the promotion of energy efficiency, conservation and distributed generation or self-generation, which may adversely impact our business.

Energy consumption is significantly impacted by overall levels of economic activity and costs of energy supplies. Economic downturns or periods of high energy supply costs can lead to changes in or the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency, alternative and renewable energy sources, and distributed or self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could adversely affect our business.

We could be negatively affected by rising interest rates, downgrades to our credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit.

A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.

Credit ratings assigned by Moody's and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the financial impact of a downgrade in our credit ratings.

Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results may fluctuate substantially on a seasonal basis if weather conditions such as heat waves, extreme cold,

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unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities.

Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods, and other climatic events, could disrupt our operations and cause us to incur significant costs to prepare for or respond to these effects. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Federal Matters" in Note 6 and "Legal Matters," "Regulatory Issues" and "Environmental Matters - Domestic" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

We may incur liabilities in connection with discontinued operations.

In connection with various divestitures, and certain other transactions, we have indemnified or guaranteed parties against certain liabilities. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated a divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture. See "Guarantees and Other Assurances" in Note 13 to the Financial Statements.

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We are subject to liability risks relating to our generation, transmission and distribution operations.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs, which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

We are subject to risks associated with federal and state tax laws and regulations.

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts and franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

We are required to obtain, and to comply with, government permits and approvals.

We are required to obtain, and to comply with, numerous permits, approvals, licenses and certificates from governmental agencies. The process of obtaining and renewing necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. In addition, such permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with any applicable laws or regulations, may result in the delay or temporary suspension of our operations and electricity sales or the curtailment of our power delivery and may subject us to penalties and other sanctions. Although various regulators routinely renew existing licenses, renewal could be denied or jeopardized by various factors, including failure to provide adequate financial assurance for closure; failure to comply with environmental, health and safety laws and regulations or permit conditions; local community, political or other opposition; and executive, legislative or regulatory action.

Our cost or inability to obtain and comply with the permits and approvals required for our operations could have a material adverse effect on our operations and cash flows. In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. In addition to the possible imposition of fines in such cases, we may be required to undertake significant capital investments in pollution control technology and obtain additional operating permits or approvals, which could have an adverse impact on our business, results of operations, cash flows and financial condition.

War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets and have contributed to high levels of volatility in prices for oil and gas. In addition, unrest in the Middle East could lead to acts of terrorism in the United States, the United Kingdom or elsewhere, and acts of terrorism could be directed against companies such as ours. Armed conflicts and terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future. In addition, we may incur increased costs for security, including additional physical plant security and security personnel or additional capability following a terrorist incident.

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We are subject to counterparty performance, credit or other risk in their provision of goods or services to us, which could adversely affect our ability to operate our facilities or conduct business activities.

We purchase from a variety of suppliers energy, capacity, fuel, natural gas, transmission service and certain commodities used in the physical operation of our businesses, as well as goods or services, including information technology rights and services, used in the administration of our businesses. Delivery of these goods and services is dependent on the continuing operational performance and financial viability of our contractual counterparties and also the markets, infrastructure or third-parties they use to provide such goods and services to us. As a result, we are subject to the risks of disruptions, curtailments or increased costs in the operation of our businesses if such goods or services are unavailable or become subject to price spikes or if a counterparty fails to perform. Such disruptions could adversely affect our ability to operate our facilities or deliver our services and collect our revenues, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations. The performance of coal markets and producers may be the subject of increased counterparty risk to LKE, LG&E and KU currently due to weaknesses in such markets and suppliers. The coal industry is subject to increasing competitive pressures from natural gas markets and new or more stringent environmental regulation, including greenhouse gases or other air emissions, combustion byproducts and water inputs or discharges. Consequently, the coal industry faces increased production costs or closed customer markets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

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ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2016, WPD's distribution system in the U.K. includes 1,792 substations with a total capacity of 72 million kVA, 56,294 circuit miles of overhead lines and 82,776 underground cable miles.

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

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2016 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE Ownership or Other Interest in MW	LG&E % Ownership or Other Interest	Ownership or Other Interest in MW	KU % Ownership or Other Interest	Ownership or Other Interest in MW
Coal						
Ghent - Units 1- 4	1,917	1,917			100.00	1,917
Mill Creek - Units 1- 4	1,465	1,465	100.00	1,465		
E.W. Brown - Units 1-3	681	681			100.00	681
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50	29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50	24
	7,408	5,155		2,059		3,096
Natural Gas/Oil						
E.W. Brown Unit 5 (c)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (c)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
Cane Run Unit 11	14	14	100.00	14		
	2,756	2,756		794		1,962
Hydro						
Ohio Falls - Units 1-8	60	60	100.00	60		
Dix Dam - Units 1-3	32	32			100.00	32
	92	92		60		32
Solar						

E.W. Brown Solar (d)	8	8	39.00	3	61.00	5
Total	10,264	8,011		2,916		5,095

(a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.

(b) These units are owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of these unit's total output and LG&E and KU fund their proportionate share of fuel and other operating costs. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 13 to the Financial Statements for additional information.

(c) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

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(d) This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2016, LG&E's transmission system included in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 97 substations (31 of which are shared with the transmission system) with a total capacity of 6 million kVA, 3,894 circuit miles of overhead lines and 2,520 underground cable miles. KU's transmission system included 142 substations (60 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,068 pole miles of lines. KU's distribution system included 474 substations (60 of which are shared with the transmission system) with a total capacity of 7 million kVA, 14,030 circuit miles of overhead lines and 2,443 underground cable miles.

LG&E's natural gas transmission system includes 4,363 miles of gas distribution mains and 401 miles of gas transmission mains, consisting of 264 miles of gas transmission pipeline, 119 miles of gas transmission storage lines, 18 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective 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, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW solar share facility to service a solar share program. The solar share program is an optional, voluntary program that allows customers to subscribe capacity in the solar share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric has electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2016, PPL Electric's transmission system includes 47 substations with a total capacity of 25 million kVA and 5,314 circuit miles in service. PPL Electric's distribution system includes 350 substations with a total capacity of 13 million kVA, 37,291 circuit miles of overhead lines and 8,494 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

See Note 8 to the Financial Statements for information on the Regional Transmission Line Expansion Plan.

ITEM 3. LEGAL PROCEEDINGS

See Notes 5, 6 and 13 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for all Registrants.

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2017, there were 58,194 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2016.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of $288 million in 2016 and $181 million in 2015.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of $316 million in 2016 and $219 million in 2015.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of $128 million in 2016 and $119 million in 2015.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of $248 million in 2016 and $153 million in 2015.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2016	2015	2014	2013	2012
Income Items (in millions)					
Operating revenues	$ 7,517	$ 7,669	$ 7,852	$ 7,263	$ 6,856
Operating income	3,048	2,831	2,867	2,561	2,228
Income from continuing operations after income taxes attributable to PPL shareowners	1,902	1,603	1,437	1,368	1,114
Income (loss) from discontinued operations (net of income taxes) (f)	—	(921)	300	(238)	412
Net income attributable to PPL shareowners (f)	1,902	682	1,737	1,130	1,526
Balance Sheet Items (in millions)					
Total assets (d)	38,315	39,301	48,606	45,889	43,509
Short-term debt (d)	923	916	836	701	296
Long-term debt (d)	18,326	19,048	18,054	18,269	16,120
Noncontrolling interests	—	—	—	—	18
Common equity (d)	9,899	9,919	13,628	12,466	10,480
Total capitalization (d)	29,148	29,883	32,518	31,436	26,914
Financial Ratios					
Return on common equity - % (d)(f)	19.2	5.8	13.0	9.8	13.8
Ratio of earnings to fixed charges (c)	3.8	2.8	2.8	2.4	2.1
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	679,731	673,857	665,849	630,321	581,944
Weighted-average	677,592	669,814	653,504	608,983	580,276
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	$ 2.80	$ 2.38	$ 2.19	$ 2.24	$ 1.91
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	$ 2.79	$ 2.37	$ 2.16	$ 2.12	$ 1.90
Net income available to PPL common shareowners - Basic EPS	$ 2.80	$ 1.01	$ 2.64	$ 1.85	$ 2.61
Net income available to PPL common shareowners - Diluted EPS	$ 2.79	$ 1.01	$ 2.61	$ 1.76	$ 2.60
Dividends declared per share of common stock	$ 1.52	$ 1.50	$ 1.49	$ 1.47	$ 1.44
Book value per share (d)	$ 14.56	$ 14.72	$ 20.47	$ 19.78	$ 18.01
Market price per share	$ 34.05	$ 34.13	$ 36.33	$ 30.09	$ 28.63
Dividend payout ratio - % (e)(f)	55	149	57	84	55
Dividend yield - % (g)	4.5	4.4	4.1	4.9	5.0
Price earnings ratio (e)(f)(g)	12.2	33.8	13.9	17.1	11.0
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,177	2,241	2,365	2,383	2,304
Domestic - Electric energy delivered - retail	67,474	67,798	68,569	67,848	66,931
U.K. - Electric energy delivered	74,728	75,907	75,813	78,219	77,467

(a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2016, 2015 and 2014. 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 and 2014.

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

(c) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short and long-term debt, amortization of debt discount, expense and premium-net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.

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

(e) Based on diluted EPS.

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

(g) Based on year-end market prices.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 6 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

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Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

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

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

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

- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2016 with 2015 and 2015 with 2014. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provides explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings is also provided.

- "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 "Item 1. Business."

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen

Energy. See Note 8 to the Financial Statements 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.

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PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base 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 at least 2020 at PPL Electric.

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

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period and to result in earnings growth after 2017. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for a discussion of the U.K. earnings hedging activity in the third and fourth quarters of 2016.

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

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

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the new U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to PPL's financial condition or results of operations. The Company is working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

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U.K. Membership in European Union (PPL)

Significant uncertainty exists concerning the effects of the June 23, 2016 referendum in favor of the U.K. withdrawal from the European Union (EU). In October 2016, the U.K. Prime Minister, Theresa May, announced her intent to invoke Article 50 of the Lisbon Treaty (Article 50) by March 31, 2017. Article 50 specifies that if a member state decides to withdraw from the EU, it should notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to whether the events referred to in the Prime Minister's announcement will occur within the times suggested as well as the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

In response to the decrease in the GBP to U.S. dollar exchange rate that occurred subsequent to the U.K.'s vote to withdraw from the EU, PPL has executed additional hedges to mitigate the foreign currency exposure to the Company's U.K. earnings. In the third quarter of 2016, PPL settled existing hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of approximately $310 million of cash, and entered into new hedges at market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately $2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Additionally, in the third and fourth quarters of 2016, PPL restructured existing hedges related to 2016 and 2017 anticipated earnings and entered into additional hedges using forward contracts for 2018. This restructuring did not have a significant impact on 2016 net income as the hedge values continue to be marked to fair value. As of January 31, 2017, PPL's foreign currency exposure related to budgeted earnings is 92% hedged for 2017 at an average rate of $1.21 per GBP, 87% hedged for 2018 at an average rate of $1.42 per GBP and 50% hedged for 2019 at an average rate of $1.34 per GBP.

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

Regulatory Requirements

(All Registrants)

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

(PPL, 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. See Note 6, Note 13 and Note 19 to the Financial Statements for a discussion of the other significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015.

Also as a result of the environmental requirements discussed above, LKE projects $1.4 billion ($0.6 billion at LG&E and $0.8 billion at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 6 and Note 13 for additional information.

(PPL)

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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 in GBP, together with the associated carrying cost will occur in the regulatory year which began April 1, 2016. Revenues for the U.K. Regulated segment were adversely affected by $19 million ($15 million after-tax or $0.02 per share) in 2015 and $40 million ($31 million after-tax or $0.05 per share) in 2014. Revenues for the U.K. Regulated segment were positively affected by $39 million ($31 million after-tax or $0.05 per share) in 2016. PPL projects revenues for 2017 will be positively affected by $16 million ($13 million after-tax or $0.02 per share).

U.K. Tax Rate Change

The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result of this change, PPL reduced its net deferred tax liabilities and recognized an income tax benefit of $42 million in 2016. Of this amount, $37 million relates to deferred taxes recorded in prior years and is treated as a special item.

U.K. Foreign Tax Credits

PPL will amend certain prior year U.S. federal income tax returns to claim foreign tax credits, rather than deduct foreign taxes, resulting in an income tax benefit of approximately $35 million recognized in the fourth quarter of 2016. This decision was prompted by changes to the Company's most recent business plan.

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 began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of $43 million ($34 million after-tax or $0.05 per share). See "Application of Critical Accounting Policies-Defined Benefits" for additional information.

Regional Transmission Expansion Plan (PPL and PPL Electric)

In July 2014, PPL Electric announced Project Compass, a proposal to construct a new multi-state transmission line. In October 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 proposal envisions construction to begin in 2021 and for the project to be in operation by 2023. Numerous approvals will be 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.

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

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately $103 million at KU and an increase in annual base electricity and gas rates of approximately $94 million and $14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data

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discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

On October 31, 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. On December 30, 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period.

Discontinued Operations (PPL)

The operations of PPL's Supply segment prior to its June 1, 2015 spinoff are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2015 and 2014 Statements of Income.

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

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

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

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

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU.
The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing year-to-year changes. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

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PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change 2016 vs. 2015	2015 vs. 2014
Operating Revenues	$7,517	$7,669	$7,852	$(152)	$(183)
Operating Expenses					
Operation					
Fuel	791	863	965	(72)	(102)
Energy purchases	706	855	924	(149)	(69)
Other operation and maintenance	1,745	1,938	1,856	(193)	82
Depreciation	926	883	923	43	(40)
Taxes, other than income	301	299	317	2	(18)
Total Operating Expenses	4,469	4,838	4,985	(369)	(147)
Other Income (Expense) - net	390	108	105	282	3
Interest Expense	888	871	843	17	28
Income Taxes	648	465	692	183	(227)
Income from Continuing Operations After Income Taxes	1,902	1,603	1,437	299	166
Income (Loss) from Discontinued Operations (net of income taxes)	—	(921)	300	921	(1,221)
Net Income	$1,902	$682	$1,737	$1,220	$(1,055)

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Domestic:		
PPL Electric Distribution price (a)	$126	$22
PPL Electric Distribution volume	(9)	(4)
PPL Electric PLR Revenue (b)	(135)	15
PPL Electric Transmission Formula Rate	59	60
LKE Base rates	68	64
LKE Volumes	1	(85)
LKE Fuel and other energy prices (b)	(81)	(113)
LKE ECR	39	86
Other	(17)	(17)
Total Domestic	51	28
U.K.:		
Price	98	(99)
Volume	(36)	5
Line loss accrual adjustments (c)	—	65
Foreign currency exchange rates	(255)	(188)
Other	(10)	6

Total U.K.	(203)	(211)
Total	$(152)	$(183)

(a) Distribution rate case effective January 1, 2016, resulted in increases of $160 million for the year ended December 31, 2016.

(b) Decreases due to lower recoveries of fuel and energy purchases primarily as a result of lower commodity costs at LKE and lower energy purchase prices at PPL Electric.

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(c) In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism, which resulted in a $65 million reduction to Operating Revenues in 2014. See Note 6 to the Financial Statements for additional information.

Fuel

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

Fuel decreased $102 million in 2015 compared with 2014 due to a $57 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a $45 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

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

Energy purchases decreased $69 million in 2015 compared with 2014 primarily due to a $38 million decrease in the market price of natural gas and a $30 million decrease in natural gas volumes at LKE.

Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Domestic:		
LKE plant operations and maintenance (a)	$(19)	$9
LKE pension expense	(12)	14
PPL Electric payroll-related costs	(26)	2
PPL Electric Act 129	(15)	9
PPL Electric contractor related expenses	7	7
PPL Electric vegetation management	4	7
PPL Electric universal service programs	3	6
Storm costs	6	(18)
Bad debts	(5)	—
Third-party costs related to the spinoff of PPL Energy Supply (Note 8)	(13)	5
Separation benefits related to the spinoff of PPL Energy Supply (Note 8)	(8)	(12)
Corporate costs previously included in discontinued operations (b)	8	27
Stock compensation expense	(6)	3
Other	18	26
U.K.:		
Pension expense (c)	(86)	(14)
Foreign currency exchange rates	(33)	(33)
Third-party engineering	(8)	7
Engineering management	7	19

National Grid exit charges	(2)	11
Other	(13)	7
Total	$(193)	$ 82

(a) Includes a $29 million reduction of costs in 2016 due to the retirement of Cane Run and Green River coal units partially offset by $5 million of additional costs for Cane Run Unit 7 plant operations.

(b) The 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.

(c) The decrease in 2016 compared with 2015 was primarily due to an increase in expected returns on higher asset balances and lower interest costs due to a change in the discount rate methodology.

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Depreciation

The increase (decrease) in depreciation was due to:

	2016 vs. 2015	2015 vs. 2014
Additions to PP&E, net	$ 76	$ 77
Foreign currency exchange rates	(27)	(19)
Network asset useful life extension (a)	—	(84)
Other	(6)	(14)
Total	$ 43	$ (40)

(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.

Taxes, Other Than Income

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

	2016 vs. 2015	2015 vs. 2014
State gross receipts tax (a)	$ 11	$ (14)
Domestic property tax expense	4	5
Foreign currency exchange rates	(15)	(11)
Other	2	2
Total	$ 2	$ (18)

(a) 2015 includes the settlement of the 2011 gross receipts tax audit that resulted in the reversal of $17 million of previously recognized reserves.

Other Income (Expense) - net

Other income (expense) - net increased $282 million in 2016 compared with 2015 and increased $3 million in 2015 compared with 2014 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:

	2016 vs. 2015	2015 vs. 2014
Long-term debt interest expense (a)	$ 63	$ 61
Hedging activities and ineffectiveness	(4)	(4)
Loss on extinguishment of debt (b)	—	(9)
Foreign currency exchange rates	(43)	(26)
Other	1	6

Total	$ 17	$ 28

(a) The increase in 2016 compared with 2015 was primarily due to debt issuances at WPD in November 2015, LG&E and KU in September 2015 and PPL Capital Funding in May 2016 as well as higher interest rates on bonds refinanced in September 2015 at LG&E and KU.

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

(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.

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Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Change in pre-tax income at current period tax rates	$184	$(18)
Valuation allowance adjustments (a)	(8)	(31)
Federal and state tax reserve adjustments (b)	22	(21)
U.S. income tax on foreign earnings net of foreign tax credit (c)	(50)	(55)
U.K. Finance Act adjustments (d)	42	(90)
Interest benefit on U.K. financing activities	3	(15)
Stock-based compensation (e)	(10)	—
Other	—	3
Total	$183	$(227)

(a) During 2016, PPL recorded deferred tax expense for valuation allowances primarily related to the increase in Pennsylvania net operating loss carryforwards expected to be unutilized.

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

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 to the Financial Statements for additional information on the spinoff.

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

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

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.

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

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.

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

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 2015 and 2014 includes the results of operations of PPL Energy Supply, which was spun off from PPL on June 1, 2015 and substantially represents PPL's former Supply segment. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Segment Earnings

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

	2016	2015	2014	Change 2016 vs. 2015	2015 vs. 2014
U.K. Regulated	$1,246	$1,121	$982	$125	$139
Kentucky Regulated	398	326	312	72	14
Pennsylvania Regulated	338	252	263	86	(11)
Corporate and Other (a)	(80)	(96)	(120)	16	24
Discontinued Operations (b)	—	(921)	300	921	(1,221)
Net Income	$1,902	$682	$1,737	$1,220	$(1,055)

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(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 certain costs related to the spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

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

Earnings from Ongoing Operations

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

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Earnings from Ongoing Operations for 2014 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. Special items include:

- Unrealized gains or losses on foreign currency-related economic hedges (as discussed below).
- 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, non-recurring or otherwise not reflective of the company's ongoing operations.

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

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

	2016	2015	2014	Change 2016 vs.	2015 vs.

				2015	2014
U.K. Regulated	$1,015	$968	$907	$47	$61
Kentucky Regulated	398	343	312	55	31
Pennsylvania Regulated	338	252	265	86	(13)
Corporate and Other (a)(b)	(77)	(74)	(135)	(3)	61
Earnings from Ongoing Operations	$1,674	$1,489	$1,349	$185	$140

(a) 2014 was 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.
(b) Costs were lower in 2015 compared with 2014 primarily due to the benefits of corporate restructuring.

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

U.K. Regulated Segment

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

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income taxes, administrative costs, and certain acquisition-related financing costs. The U.K. Regulated segment represents 66% of PPL's Net Income for 2016 and 38% of PPL's assets at December 31, 2016.

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

	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Operating revenues	$2,207	$2,410	$2,621	$(203)	$(211)
Other operation and maintenance	344	477	482	(133)	(5)
Depreciation	233	242	337	(9)	(95)
Taxes, other than income	135	148	157	(13)	(9)
Total operating expenses	712	867	976	(155)	(109)
Other Income (Expense) - net	386	123	127	263	(4)
Interest Expense	402	417	461	(15)	(44)
Income Taxes	233	128	329	105	(201)
Net Income	1,246	1,121	982	125	139
Less: Special Items	231	153	75	78	78
Earnings from Ongoing Operations	$1,015	$968	$907	$47	$61

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	2016	2015	2014
Foreign currency-related economic hedges, net of tax of $4, ($30), ($68) (a)	Other Income (Expense) - net	$(8)	$55	$127
Settlement of foreign currency contracts, net of tax of ($108), $0, $0 (b)	Other Income (Expense) - net	202	—	—
Change in U.K. tax rate (c)	Income Taxes	37	78	—
WPD Midlands acquisition-related adjustment, net of tax of $0, ($1), $0	Other operation and maintenance	—	2	—
Settlement of certain income tax positions (d)	Income Taxes	—	18	—
Change in WPD line loss accrual, net of tax of $0, $0, $13 (e)	Operating Revenues	—	—	(52)
Total		$231	$153	$75

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of $310 million ($202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.

(b) In 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in $310 million of cash received ($202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income. See Note 17 to the Financial Statements for additional information.

(c) The U.K. Finance Acts of 2016 and 2015 reduced the U.K.'s statutory income tax rates. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016 and 2015. See Note 5 to the Financial Statements for additional information.

(d) Relates to the April 2015 settlement of the IRS audit for the tax years 1998-2011. See Note 5 to the Financial Statements for additional information.

(e) In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during 2014 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.

	2016 vs. 2015	2015 vs. 2014
U.K.		
Gross margins	$ 62	$ (110)
Other operation and maintenance	94	(14)
Depreciation	(18)	76
Interest expense	(28)	3
Other	(3)	(5)
Income taxes	(18)	48

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	2016 vs. 2015	2015 vs. 2014
U.S.		
Interest expense and other	(2)	12
Income taxes	41	55
Foreign currency exchange, after-tax	(81)	(4)
Earnings from Ongoing Operations	47	61
Special items, after-tax	78	78
Net Income	$125	$139

U.K.

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

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

- 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.

- 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.

U.S.

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

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

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 21% of PPL's Net Income for 2016 and 37% of PPL's assets at December 31, 2016.

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

				Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Operating revenues	$3,141	$3,115	$3,168	$26	$(53)
Fuel	791	863	965	(72)	(102)
Energy purchases	171	184	253	(13)	(69)
Other operation and maintenance	804	837	815	(33)	22

Depreciation	404	382	354	22	28
Taxes, other than income	62	57	52	5	5
Total operating expenses	2,232	2,323	2,439	(91)	(116)
Other Income (Expense) - net	(9)	(13)	(9)	4	(4)
Interest Expense	260	232	219	28	13
Income Taxes	242	221	189	21	32
Net Income	398	326	312	72	14
Less: Special Items	—	(17)	—	17	(17)
Earnings from Ongoing Operations	$398	$343	$312	$55	$31

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.

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	Income Statement Line Item	2016	2015	2014
Certain income tax valuation allowances (a)	Income Taxes	$ —	$ (12)	$ —
LKE acquisition-related adjustment, net of tax of $0, $0, $0 (b)	Other Income (Expense) - net	—	(5)	—
Total		$ —	$ (17)	$ —

(a) Recorded at LKE and represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.

(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.

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.

	2016 vs. 2015	2015 vs. 2014
Kentucky Gross Margins	$ 83	$ 88
Other operation and maintenance	42	(21)
Depreciation	(4)	(1)
Taxes, other than income	(4)	(3)
Other Income (Expense) - net	(1)	1
Interest Expense	(28)	(13)
Income Taxes	(33)	(20)
Earnings from Ongoing Operations	55	31
Special Items, after-tax	17	(17)
Net Income	$ 72	$ 14

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

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

- Higher other operation and maintenance expense 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 interest expense for both periods primarily due to the September 2015 issuance of $550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of $500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and $400 million of notes refinanced by LKE with an affiliate in November 2015.

- Higher income taxes for both periods 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. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 18% of PPL's Net Income for 2016 and 25% of PPL's assets at December 31, 2016.

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

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	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Operating revenues	$2,156	$2,124	$2,044	$32	$80
Energy purchases					
External	535	657	587	(122)	70
Intersegment	—	14	84	(14)	(70)
Other operation and maintenance	601	607	543	(6)	64
Depreciation	253	214	185	39	29
Taxes, other than income	105	94	107	11	(13)
Total operating expenses	1,494	1,586	1,506	(92)	80
Other Income (Expense) - net	17	8	7	9	1
Interest Expense	129	130	122	(1)	8
Income Taxes	212	164	160	48	4
Net Income	338	252	263	86	(11)
Less: Special Items	—	—	(2)	—	2
Earnings from Ongoing Operations	$338	$252	$265	$86	$(13)

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	2016	2015	2014
Separation benefits, net of tax of $0, $0, $1 (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 Margins and the item that management considers special on separate lines and not in their respective Statement of Income line item.

	2016 vs. 2015	2015 vs. 2014
Pennsylvania Gross Margins	$177	$65
Other operation and maintenance	—	(58)
Depreciation	(39)	(29)
Taxes, other than income	(14)	18
Other Income (Expense) - net	9	1
Interest Expense	1	(8)
Income Taxes	(48)	(2)
Earnings from Ongoing Operations	86	(13)
Special Item, after-tax	—	2
Net Income	$86	$(11)

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

- Other operation and maintenance expense for 2016 was comparable with 2015 primarily due to $26 million of lower payroll related expenses, partially offset by $8 million of higher corporate service costs allocated to PPL

Electric, $8 million of higher costs for additional work done by outside vendors and other costs, which were not individually significant in comparison to the prior year.

- Higher other operation and maintenance expense 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.

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

- Higher taxes, other than income for 2016 compared with 2015 and 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 in 2015.

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• Higher income taxes in 2016 compared with 2015 primarily due to higher pre-tax income.

Reconciliation of Earnings from Ongoing Operations

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

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

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

	2014					
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Net Income	$982	$ 312	$ 263	$ (120)	$ 300	$1,737
Less: Special Items (expense) benefit:						

Foreign currency-related economic hedges, net of tax of ($68)	127	—	—	—	—	127
Spinoff of the Supply segment:						
Supply segment earnings, net of tax of ($93)	—	—	—	—	307	307
Discontinued operations adjustments, net of tax of $3, ($3)	—	—	—	(5)	5	—
Change in tax valuation allowances	—	—	—	(46)	—	(46)
Transition and transaction costs, net of tax of $3, $7	—	—	—	(5)	(12)	(17)
Separation benefits, net of tax of $6	—	—	—	(12)	—	(12)

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	2014 U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations	Total
Other:						
Change in WPD line loss accrual, net of tax of $13	(52)	—	—	—	—	(52)
Separation benefits, net of tax of $1	—	—	(2)	—	—	(2)
Total Special Items	75	—	(2)	(68)	300	305
Dissynergies-spinoff of Supply segment expense (benefit):						
Indirect operation and maintenance, net of tax of ($33)	—	—	—	47	—	47
Interest expense, net of tax of ($20)	—	—	—	29	—	29
Depreciation, net of tax of ($5)	—	—	—	7	—	7
Total dissynergies-spinoff of Supply segment	—	—	—	83	—	83
Earnings from Ongoing Operations	$907	$ 312	$ 265	$ (135)	$ —	$1,349

Margins

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

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

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

- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "Energy purchases from affiliate" in the 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 operations and analyze actual results compared with budget.

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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.

	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
U.K. Regulated					
U.K. Gross Margins	$2,067	$2,243	$2,527	$(176)	$(284)
Impact of changes in foreign currency exchange rates				(238)	(174)
U.K. Gross Margins excluding impact of foreign currency exchange rates				$62	$(110)
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	$887	$867	$833	$20	$34
KU	1,122	1,059	1,005	63	54
Total Kentucky Gross Margins	$2,009	$1,926	$1,838	$83	$88
Pennsylvania Regulated					
Pennsylvania Gross Margins					
Distribution	$960	$842	$837	$118	$5
Transmission	454	395	335	59	60
Total Pennsylvania Gross Margins	$1,414	$1,237	$1,172	$177	$65

U.K. Gross Margins

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

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.

Kentucky Gross Margins

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

Kentucky Gross Margins increased in 2015 compared with 2014 primarily due to higher base rates of $64 million ($3 million at LG&E and $61 million at KU) 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 lower sales volumes of $28 million ($5 million at LG&E and $23 million at KU) driven by milder weather during the fourth quarter of 2015.

Pennsylvania Gross Margins

Distribution

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

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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.

Transmission

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

Reconciliation of Margins

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

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

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

	2014				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,638(c)	$ 3,168	$ 2,044	$2	$ 7,852
Operating Expenses					
Fuel	—	965	—	—	965
Energy purchases	—	253	587	84	924

Energy purchases from affiliate	—	—	84	(84)	—
Other operation and maintenance	111	99	103	1,543	1,856
Depreciation	—	11	—	912	923
Taxes, other than income	—	2	98	217	317
Total Operating Expenses	111	1,330	872	2,672	4,985
Total	$2,527	$ 1,838	$ 1,172	$(2,670)	$ 2,867

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(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) 2016, 2015 and 2014 exclude $42 million, $46 million and $48 million of ancillary activity revenues. 2014 also excludes $65 million of revenue reductions related to adjustments to WPD's line loss accrual related to DPCR4, which is considered a special item.

2017 Outlook

(PPL)

Lower net income is projected in 2017 compared with 2016 primarily from a lower assumed GBP exchange rate in 2017 and 2016 tax benefits that are not expected to repeat in 2017. 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)

Lower net income is projected in 2017 compared with 2016 due to a lower assumed GBP exchange rate in 2017, lower incentive revenues, higher interest expense, higher depreciation expense and higher income taxes, partially offset by lower operation and maintenance expense, including pension expense.

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

Slightly higher net income is projected in 2017 compared with 2016 primarily driven by electricity and gas base rate increases, partially offset by higher operation and maintenance expense and higher depreciation expense.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016 primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense, higher interest expense and higher income taxes.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, 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.

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PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Operating Revenues	$2,156	$2,124	$2,044	$32	$80
Operating Expenses					
Operation					
Energy purchases	535	657	587	(122)	70
Energy purchases from affiliate	—	14	84	(14)	(70)
Other operation and maintenance	599	607	543	(8)	64
Depreciation	253	214	185	39	29
Taxes, other than income	105	94	107	11	(13)
Total Operating Expenses	1,492	1,586	1,506	(94)	80
Other Income (Expense) - net	17	8	7	9	1
Interest Expense	129	130	122	(1)	8
Income Taxes	212	164	160	48	4
Net Income	$340	$252	$263	$88	$(11)

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Distribution Price (a)	$126	$22
Distribution volume	(9)	(4)
PLR (b)	(135)	15
Transmission Formula Rate	59	60
Other	(9)	(13)
Total	$32	$80

(a) Distribution rate case effective January 1, 2016, resulted in increases of $160 million for the year ended December 31, 2016.
(b) In 2016 compared with 2015 the decrease was primarily due to lower energy purchase prices as described below.

Energy Purchases

Energy purchases decreased $122 million in 2016 compared with 2015 primarily due to lower PLR prices of $124 million. Energy purchases increased $70 million in 2015 compared with 2014 primarily due to higher PLR volumes of $73 million.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased by $14 million in 2016 compared with 2015 and decreased $70 million in 2015 compared with 2014 as a result of the June 1, 2015 PPL Energy Supply spinoff.

Other Operation and Maintenance

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

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	2016 vs. 2015	2015 vs. 2014
Act 129	$(15)	$9
Universal service programs	3	6
Contractor-related expenses	7	7
Vegetation management	4	7
Payroll-related costs	(26)	2
Corporate service costs (a)	8	30
Storm costs	9	(11)
Bad debts	(4)	6
Environmental costs	(6)	5
Other	12	3
Total	$(8)	$64

(a) The increase in 2015 compared with 2014 was due to higher corporate support costs charged to Electric Utilities primarily as a result of the spinoff of PPL Energy Supply.

Depreciation

Depreciation increased by $39 million in 2016 compared with 2015, and by $29 million in 2015 compared with 2014 primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Taxes, Other Than Income

Taxes, other than income increased by $11 million in 2016 compared with 2015 and decreased by $13 million in 2015 compared with 2014 primarily due to the settlement, in 2015, of a 2011 gross receipts tax audit that resulted in the reversal of $17 million of previously recognized reserves.

Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Change in pre-tax income	$58	$ 1
Depreciation not normalized	(5)	2
Stock-based compensation (a)	(6)	—
Other	1	1
Total	$48	$ 4

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

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

Earnings

	2016	2015	2014
Net Income	$340	$252	$263
Special item, gain (loss), after-tax	—	—	(2)

Earnings increased in 2016 compared with 2015 primarily due to higher base electricity rates for distribution effective January 1, 2016, and higher transmission margins from additional capital investments, partially offset by higher depreciation expense and the release of a gross receipts tax reserve in 2015.

Earnings decreased in 2015 compared with 2014 primarily due to higher other operation and maintenance expense and higher depreciation expense, partially offset by returns on additional transmission and distribution improvement capital investments and the release of a gross receipts tax reserve in 2015.

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The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins and an item that management considers special on separate lines within the table and not in their respective Statement of Income line items.

	2016 vs. 2015	2015 vs. 2014
Pennsylvania Gross Margins	$177	$65
Other operation and maintenance	2	(58)
Depreciation	(39)	(29)
Taxes, other than income	(14)	18
Other Income (Expense) - net	9	1
Interest Expense	1	(8)
Income Taxes	(48)	(2)
Special Item, after-tax	—	2
Net Income	$88	$(11)

Margins

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

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

	2016			2015		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,156	$—	$ 2,156	$2,124	$—	$ 2,124
Operating Expenses						
Energy purchases	535	—	535	657	—	657
Energy purchases from affiliate	—	—	—	14	—	14
Other operation and maintenance	108	491	599	114	493	607
Depreciation	—	253	253	—	214	214
Taxes, other than income	99	6	105	102	(8)	94
Total Operating Expenses	742	750	1,492	887	699	1,586
Total	$1,414	$(750)	$ 664	$1,237	$(699)	$ 538

	2014		
	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,044	$—	$ 2,044
Operating Expenses			
Energy purchases	587	—	587
Energy purchases from affiliate	84	—	84
Other operation and maintenance	103	440	543
Depreciation	—	185	185

Taxes, other than income	98	9	107
Total Operating Expenses	872	634	1,506
Total	$1,172	$(634)	$ 538

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

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LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Operating Revenues	$3,141	$3,115	$3,168	$26	$(53)
Operating Expenses					
Operation					
Fuel	791	863	965	(72)	(102)
Energy purchases	171	184	253	(13)	(69)
Other operation and maintenance	804	837	815	(33)	22
Depreciation	404	382	354	22	28
Taxes, other than income	62	57	52	5	5
Total Operating Expenses	2,232	2,323	2,439	(91)	(116)
Other Income (Expense) - net	(9)	(8)	(9)	(1)	1
Interest Expense	197	178	167	19	11
Interest Expense with Affiliate	17	3	—	14	3
Income Taxes	257	239	209	18	30
Net Income	$429	$364	$344	$65	$20

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Base rates	$68	$64
Volumes	1	(85)
Fuel and other energy prices (a)	(81)	(113)
ECR	39	86
Other	(1)	(5)
Total	$26	$(53)

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

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

Fuel decreased $102 million in 2015 compared with 2014 due to a $57 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a $45 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased $13 million in 2016 compared with 2015 primarily due to a $9 million decrease in the market price of natural gas and a $5 million decrease in natural gas volumes driven by milder weather during the first quarter of 2016.

Energy purchases decreased $69 million in 2015 compared with 2014 primarily due to a $38 million decrease in the market price for natural gas and a $30 million decrease in natural gas volumes driven by milder weather during the fourth quarter of 2015.

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Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Plant operations and maintenance (a)	$ (19)	$ 9
Pension expense	(12)	14
Timing and scope of scheduled generation maintenance outages	(5)	(1)
Storm costs	(3)	(7)
Bad debts	(1)	(6)
Energy efficiency programs	5	(1)
Other	2	14
Total	$ (33)	$ 22

(a) Includes a $29 million reduction of costs in 2016 due to the retirement of Cane Run and Green River coal units partially offset by $5 million of additional costs for Cane Run Unit 7 plant operations.

Interest Expense

Interest expense increased $33 million in 2016 compared with 2015 and increased $14 million in 2015 compared with 2014 primarily due the September 2015 issuance of $550 million of incremental First Mortgage Bonds by LG&E and KU, higher interest rates on the September 2015 issuance of $500 million of First Mortgage Bonds by LG&E and KU used to retire the same amount of First Mortgage Bonds in November 2015 and $400 million of notes refinanced with an affiliate in November 2015.

Income Taxes

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

	2016 vs. 2015	2015 vs. 2014
Higher pre-tax book income	$ 32	$ 19
Certain income tax valuation allowances (a)	(12)	12
Other	(2)	(1)
Total	$ 18	$ 30

(a) Management considers this a special item. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of this item.

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

Earnings

	2016	2015	2014
Net Income	$ 429	$ 364	$ 344
Special items, gains (losses), after-tax	—	(12)	—

Excluding special items, earnings increased in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015, returns on additional environmental capital investments and lower other operation and maintenance expense partially offset by higher interest expense.

Excluding special items, earnings increased in 2015 compared with 2014 primarily due to higher base rates and returns on additional environmental capital investments partially offset by higher other operation and maintenance expense, income taxes, financing costs and lower sales volume. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. The change in sales volume was due to milder weather during the fourth quarter of 2015.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of

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Income line items.

	2016 vs. 2015	2015 vs. 2014
Margins	$ 83	$ 88
Other operation and maintenance	42	(21)
Depreciation	(4)	(1)
Taxes, other than income	(4)	(3)
Other Income (Expense)-net	(1)	1
Interest Expense	(33)	(14)
Income Taxes	(30)	(18)
Special items, after-tax (a)	12	(12)
Total	$ 65	$ 20

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

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

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

	2016			2015		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 3,141	$ —	$ 3,141	$ 3,115	$ —	$ 3,115
Operating Expenses						
Fuel	791	—	791	863	—	863
Energy purchases	171	—	171	184	—	184
Other operation and maintenance	109	695	804	100	737	837
Depreciation	56	348	404	38	344	382
Taxes, other than income	5	57	62	4	53	57
Total Operating Expenses	1,132	1,100	2,232	1,189	1,134	2,323
Total	$ 2,009	$ (1,100)	$ 909	$ 1,926	$ (1,134)	$ 792

	2014		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 3,168	$ —	$ 3,168
Operating Expenses			
Fuel	965	—	965
Energy purchases	253	—	253
Other operation and maintenance	99	716	815

Depreciation	11	343	354
Taxes, other than income	2	50	52
Total Operating Expenses	1,330	1,109	2,439
Total	$ 1,838	$ (1,109)	$ 729

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

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

Statement of Income Analysis

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

	2016	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Operating Revenues					
Retail and wholesale	$1,406	$1,407	$1,445	$(1)	$(38)
Electric revenue from affiliate	24	37	88	(13)	(51)
Total Operating Revenues	1,430	1,444	1,533	(14)	(89)
Operating Expenses					
Operation					
Fuel	301	329	404	(28)	(75)
Energy purchases	153	166	230	(13)	(64)
Energy purchases from affiliates	14	20	14	(6)	6
Other operation and maintenance	355	377	379	(22)	(2)
Depreciation	170	162	157	8	5
Taxes, other than income	32	28	25	4	3
Total Operating Expenses	1,025	1,082	1,209	(57)	(127)
Other Income (Expense) - net	(5)	(6)	(3)	1	(3)
Interest Expense	71	57	49	14	8
Income Taxes	126	114	103	12	11
Net Income	$203	$185	$169	$18	$16

Operating Revenues

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

	2016 vs. 2015	2015 vs. 2014
Base rates	$4	$3
Volumes	(8)	(81)
Fuel and other energy prices (a)	(36)	(51)
ECR	26	51
Other	—	(11)
Total	$(14)	$(89)

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased $28 million in 2016 compared with 2015 primarily due to a $24 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Fuel decreased $75 million in 2015 compared with 2014 due to a $65 million decrease in volumes, driven by milder weather during the fourth quarter of 2015, and a $10 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Energy Purchases

Energy purchases decreased $13 million in 2016 compared with 2015 primarily due to a $9 million decrease in the market price of natural gas and a $5 million decrease in natural gas volumes driven by milder weather during the first quarter of 2016.

Energy purchases decreased $64 million in 2015 compared with 2014 primarily due to a $38 million decrease in the market price for natural gas and a $30 million decrease in natural gas volumes driven by milder weather during the fourth quarter of 2015.

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Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Plant operations and maintenance (a)	$ (21)	$ (1)
Pension expense	(6)	6
Timing and scope of scheduled generation maintenance outages	3	(3)
Storm costs	(2)	(4)
Bad debts	—	(3)
Energy efficiency programs	2	(1)
Other	2	4
Total	$ (22)	$ (2)

(a) Includes a $23 million reduction of costs in 2016 due to the retirement of Cane Run coal units.

Interest Expense

Interest expense increased $14 million in 2016 compared with 2015 and increased $8 million in 2015 compared with 2014 primarily due to the issuance of $300 million of incremental First Mortgage Bonds in September 2015 and higher interest rates on $250 million of First Mortgage Bonds refinanced by LG&E.

Earnings

	2016	2015	2014
Net Income	$ 203	$ 185	$ 169
Special items, gains (losses), after-tax (a)	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings in 2016 compared with 2015 increased primarily due to returns on additional environmental capital investments and lower other operation and maintenance expense, partially offset by higher interest expense.

Earnings in 2015 compared with 2014 increased primarily due to returns on additional environmental capital investments partially offset by higher income taxes, financing costs and lower sales volume. The change in sales volume was due to milder weather during the fourth quarter of 2015.

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

	2016 vs. 2015	2015 vs. 2014
Margins	$ 20	$ 34
Other operation and maintenance	23	(3)
Depreciation	3	9
Taxes, other than income	(3)	(2)
Other Income (Expense) - net	1	(3)

Interest Expense	(14)	(8)
Income Taxes	(12)	(11)
Net Income	$ 18	$ 16

Margins

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

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

	2016			2015		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,430	$—	$ 1,430	$1,444	$—	$ 1,444
Operating Expenses						
Fuel	301	—	301	329	—	329
Energy purchases	167	—	167	186	—	186
Other operation and maintenance	43	312	355	42	335	377
Depreciation	29	141	170	18	144	162
Taxes, other than income	3	29	32	2	26	28
Total Operating Expenses	543	482	1,025	577	505	1,082
Total	$887	$(482)	$ 405	$867	$(505)	$ 362

	2014		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,533	$—	$ 1,533
Operating Expenses			
Fuel	404	—	404
Energy purchases	244	—	244
Other operation and maintenance	47	332	379
Depreciation	4	153	157
Taxes, other than income	1	24	25
Total Operating Expenses	700	509	1,209
Total	$833	$(509)	$ 324

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

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

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

	2016	2015	2014	Change 2016 vs. 2015	2015 vs. 2014
Operating Revenues					
Retail and wholesale	$1,735	$1,708	$1,723	$27	$(15)
Electric revenue from affiliate	14	20	14	(6)	6
Total Operating Revenues	1,749	1,728	1,737	21	(9)
Operating Expenses					

Operation					
Fuel	490	534	561	(44)	(27)
Energy purchases	18	18	23	—	(5)
Energy purchases from affiliates	24	37	88	(13)	(51)
Other operation and maintenance	424	435	408	(11)	27
Depreciation	234	220	197	14	23
Taxes, other than income	30	29	27	1	2
Total Operating Expenses	1,220	1,273	1,304	(53)	(31)
Other Income (Expense) - net	(5)	1	(1)	(6)	2
Interest Expense	96	82	77	14	5
Income Taxes	163	140	135	23	5
Net Income	$265	$234	$220	$31	$14

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Operating Revenue

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

	2016 vs. 2015	2015 vs. 2014
Base rates	$ 64	$ 61
Volumes	(8)	(28)
Fuel and other energy prices (a)	(47)	(68)
ECR	13	35
Other	(1)	(9)
Total	$ 21	$ (9)

(a) Decreases due to lower recoveries of fuel and energy purchases due to lower commodity costs as described below.

Fuel

Fuel decreased $44 million in 2016 compared with 2015 primarily due to a $46 million decrease in commodity costs as a result of a decrease in market prices for coal and natural gas.

Fuel decreased $27 million in 2015 compared with 2014 due to a $35 million decrease in commodity costs, as a result of a decrease in market prices for coal, partially offset by an $8 million increase in natural gas volumes driven by Cane Run Unit 7 being placed in-service in June 2015.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased $13 million in 2016 compared with 2015 primarily due to decreased volumes driven by milder weather in the first quarter of 2016.

Energy purchases from affiliate decreased $51 million in 2015 compared with 2014 primarily due to decreased volumes driven by Cane Run Unit 7 being placed in-service in June 2015.

Other Operation and Maintenance

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

	2016 vs. 2015	2015 vs. 2014
Timing and scope of scheduled generation maintenance outages	$ (8)	$ 2
Pension expense	(8)	10
Plant operations and maintenance	2	10
Bad debts	(1)	(3)
Storm costs	(1)	(3)
Energy efficiency programs	3	—
Other	2	11
Total	$ (11)	$ 27

Depreciation

Depreciation increased $14 million in 2016 compared with 2015 and increased $23 million in 2015 compared with 2014 primarily due to additional assets placed into service, net of retirements.

Income Taxes

Income taxes increased $23 million in 2016 compared with 2015 and increased $5 million in 2015 compared with 2014 primarily due to higher pre-tax income.

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

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Earnings

	2016	2015	2014
Net Income	$265	$234	$220
Special items, gains (losses), after tax (a)	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings in 2016 compared with 2015 increased primarily due to higher base electricity rates effective July 1, 2015 and lower other operation and maintenance expense partially offset by higher interest expense.

Earnings in 2015 compared with 2014 increased primarily due to higher base rates and returns on additional environmental capital investments partially offset by higher other operation and maintenance expense, depreciation expense and lower sales volume. The increases in base rates were the result of new rates approved by the KPSC effective July 1, 2015. The change in sales volume was due to milder weather during the fourth quarter of 2015.

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

	2016 vs. 2015	2015 vs. 2014
Margins	$63	$54
Other operation and maintenance	19	(21)
Depreciation	(7)	(10)
Taxes, Other than income	(1)	(1)
Other Income (Expense) - net	(6)	2
Interest Expense	(14)	(5)
Income Taxes	(23)	(5)
Net Income	$31	$14

Margins

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

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

	2016			2015		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,749	$—	$ 1,749	$1,728	$—	$ 1,728
Operating Expenses						
Fuel	490	—	490	534	—	534
Energy purchases	42	—	42	55	—	55
Other operation and maintenance	66	358	424	58	377	435
Depreciation	27	207	234	20	200	220

Taxes, other than income	2	28	30	2	27	29
Total Operating Expenses	627	593	1,220	669	604	1,273
Total	$1,122	$(593)	$ 529	$1,059	$(604)	$ 455

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	2014		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,737	$—	$ 1,737
Operating Expenses			
Fuel	561	—	561
Energy purchases	111	—	111
Other operation and maintenance	52	356	408
Depreciation	7	190	197
Taxes, other than income	1	26	27
Total Operating Expenses	732	572	1,304
Total	$1,005	$(572)	$ 433

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

Financial Condition

The remainder of this Item 7 in this Form 10-K is presented on a combined basis, providing information, as applicable, for all Registrants.

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. See "Item 1A. Risk Factors" for a discussion of risks and uncertainties that could affect the Registrants' cash flows.

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2016					
Cash and cash equivalents	$341	$ 13	$ 13	$ 5	$7
Short-term debt	923	295	185	169	16
Notes payable with affiliates		—	163	—	—
December 31, 2015					
Cash and cash equivalents	$836	$ 47	$ 30	$ 19	$11
Short-term debt	916	—	265	142	48
Notes payable with affiliates		—	54	—	—
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 payables with affiliates		—	41	—	—

(a) At December 31, 2016, $5 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.

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(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
2016					
Operating activities	$2,890	$ 872	$1,027	$482	$606
Investing activities	(2,918)	(1,130)	(790)	(439)	(349)
Financing activities	(439)	224	(254)	(57)	(261)
2015					
Operating activities	$2,272	$ 602	$1,063	$554	$608
Investing activities	(3,439)	(1,108)	(1,203)	(689)	(512)
Financing activities	482	339	149	144	(96)
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
2016 vs. 2015 Change					
Operating activities	$618	$ 270	$(36)	$(72)	$(2)
Investing activities	521	(22)	413	250	163
Financing activities	(921)	(115)	(403)	(201)	(165)
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)

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
2016 vs. 2015					
Change - Cash Provided (Used):					
Net income	$299	$ 88	$65	$18	$31
Non-cash components	195	40	66	20	(20)
Working capital	47	101	(206)	(100)	(51)
Defined benefit plan funding	72	33	(15)	(20)	1
Other operating activities	5	8	54	10	37
Total	$618	$ 270	$(36)	$(72)	$(2)
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

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(PPL)

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

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

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

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

PPL 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) and 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 Electric)

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

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

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

- Pension funding was $33 million lower in 2016.

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 improved collection performance).

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- Pension funding was $10 million higher in 2015.

(LKE)

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

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

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

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

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

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.

(LG&E)

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

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

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

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

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

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

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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.

(KU)

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

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

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

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

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.

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
2016 vs. 2015					
Change - Cash Provided (Used):					

Expenditures for PP&E	$613	$ (28)	$419	$ 250	$169
Investment activity, net	(134)	—	—	—	—
Other investing activities	42	6	(6)	—	(6)
Total	$521	$ (22)	$413	$ 250	$163

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	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)	—	—	—	—
Investment activity, net	256	—	—	—	—
Other investing activities	1	(1)	6	—	6
Total	$387	$(317)	$(12)	$(33)	$91

(PPL)

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

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

For PPL, in 2015 compared with 2014, 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.

The change in "Investment activity, net" for 2015 compared with 2014 resulted from PPL receiving $136 million during 2015 for the sale of short-term investments and paying $120 million during 2014 for the purchase of short-term investments.

(PPL Electric)

For PPL Electric, in 2016 compared with 2015, the increase in expenditures was primarily due to the Northern Lehigh and Greater Scranton transmission reliability projects and other various transmission and distribution projects, which was partially offset by the completion of the Northeast Pocono reliability project and the Susquehanna-Roseland transmission project.

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 activity, net" resulted from proceeds of $150 million received in 2014 from repayments on a note extended in 2013.

(LKE)

For LKE, in 2016 compared with 2015, cash used in investing activities decreased primarily due to lower PP&E expenditures. The decrease in expenditures for LG&E was primarily driven by completion of the environmental air projects at LG&E's Mill Creek plant. The decrease in expenditures for KU was primarily driven by completion of the environmental air projects at KU's Ghent plant and the CCR project at KU's E.W. Brown plant.

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For LKE, in 2015 compared with 2014, cash used in 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.

(LG&E)

For LG&E, in 2016 compared with 2015, cash used in investing activities decreased due to lower PP&E expenditures driven by completion of the environmental air projects at the Mill Creek plant.

For LG&E, in 2015 compared with 2014, cash used in 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.

(KU)

For KU, in 2016 compared with 2015, cash used in investing activities decreased primarily due to lower PP&E expenditures driven by completion of the environmental air projects at the Ghent plant and the CCR project at the E.W. Brown plant.

For KU, in 2015 compared with 2014, cash used in 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.

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

	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)

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

(PPL)

For PPL, in 2016 compared with 2015, $921 million less cash from financing activities was required primarily due to improvements in cash from operations of $618 million.

For PPL, in 2015 compared with 2014, $220 million additional cash from financing activities was required including the WPD, LG&E and KU long-term debt issuances in 2015, partially offset by lower common stock issuances in 2015.

(PPL Electric)

For PPL Electric, in 2016 compared with 2015, $115 million less cash from financing activities was required to support its significant capital expenditure program primarily due to improvements in cash from operations of $270 million.

For PPL Electric, in 2015 compared with 2014, $28 million less cash from financing activities was required primarily due to the use of cash on hand which helped support the significant capital expenditure program.

(LKE)

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

For LKE, in 2015 compared 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.

(LG&E)

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

For LG&E, in 2015 compared 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.

(KU)

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

For KU, in 2015 compared 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.

(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 2016 included:

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	Debt Issuances (a)	Retirements	Net Stock Issuances
Cash Flow Impact:			
PPL	$ 1,342	$ 930	$ 144
PPL Electric	224	224	
LKE	221	246	
LG&E	125	150	
KU	96	96	

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

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

ATM Program (PPL)

During 2016, PPL issued 710 thousand shares of common stock under the program at an average price of $35.23 per share, receiving net proceeds of $25 million. See Note 7 to the Financial Statements for additional information about the ATM Program.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2017.

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, 2016, 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	$ 1,400	$ —	$ 37	$ 1,363
PPL Electric Credit Facility	650	—	296	354
LKE Credit Facility	75	—	—	75

LG&E Credit Facility	500	—	169	331
KU Credit Facilities	598	—	214	384
Total LKE Consolidated	1,173	—	383	790
Total U.S. Credit Facilities (a) (b) (c)	$ 3,223	$ —	$ 716	$ 2,507
Total U.K. Credit Facilities (c) (d) (e)	£ 1,055	£ 279	£ —	£ 775

(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 - 10%, PPL Electric 7%, LKE - 21%, LG&E - 7% 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.

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(e) The amounts borrowed at December 31, 2016, include a USD-denominated borrowing of $200 million and GBP-denominated borrowings of £119 million, which equated to $148 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £161 million as of the date borrowed. At December 31, 2016, the USD equivalent of unused capacity under the U.K. committed credit facilities was $969 million.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 13% 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, 2016, 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	$ 163	$ —	$ 62
LG&E Money Pool (a)	500	—	169	331
KU Money Pool (a)	500	—	16	484

(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, 2016		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	$1,000	$ 20	$ 980
PPL Electric	400	295	105
LG&E	350	169	181
KU	350	16	334
Total LKE	700	185	515
Total PPL	$2,100	$ 500	$ 1,600

In January 2017, PPL Electric's commercial paper program capacity was increased to $650 million.

See Note 7 to the Financial Statements for further discussion of the Registrants' commercial paper programs.

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are currently authorized to incur, subject to market conditions, up to approximately $3.4 billion of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

PPL plans to issue, subject to market conditions, up to $350 million of common stock in 2017.

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(PPL Electric)

PPL Electric is currently authorized to incur, subject to market conditions, up to approximately $500 million of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures and for general corporate purposes. PPL Electric currently plans to remarket, subject to market conditions, $224 million of its bonds with put dates in 2017.

(LKE, LG&E and KU)

LG&E is currently authorized to incur, subject to market conditions and regulatory approvals, up to approximately $400 million of long-term indebtedness in 2017, 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, $194 million of its bonds with put dates in 2017.

KU is currently authorized to incur, subject to market conditions and regulatory approvals, up to approximately $100 million of long-term indebtedness in 2017, the proceeds of which would be used to fund capital expenditures.

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

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

Forecasted Uses of Cash

(All Registrants)

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

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2017 through 2021. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

		Projected				
	Total	2017	2018	2019	2020	2021
PPL						
Construction expenditures (a) (b)						
Generating facilities	$862	$220	$212	$195	$97	$138
Distribution facilities	8,849	1,855	1,743	1,761	1,732	1,758
Transmission facilities	4,077	900	881	875	859	562
Environmental	1,435	329	438	210	220	238
Other	664	137	215	189	66	57
Total Capital Expenditures	$15,887	$3,441	$3,489	$3,230	$2,974	$2,753

PPL Electric (a) (b)						
Distribution facilities	$1,908	$434	$389	$390	$348	$347
Transmission facilities	3,283	768	737	675	704	399
Total Capital Expenditures	$5,191	$1,202	$1,126	$1,065	$1,052	$746

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		Projected				
	Total	2017	2018	2019	2020	2021
LKE (b)						
Generating facilities	$862	$220	$212	$195	$97	$138
Distribution facilities	1,652	297	339	348	325	343
Transmission facilities	795	132	144	200	156	163
Environmental	1,435	329	438	210	220	238
Other	636	129	209	184	61	53
Total Capital Expenditures	$5,380	$1,107	$1,342	$1,137	$859	$935
LG&E (b)						
Generating facilities	$422	$138	$104	$81	$36	$63
Distribution facilities	1,090	188	223	228	216	235
Transmission facilities	222	24	32	74	43	49
Environmental	645	150	201	78	95	121
Other	310	60	102	92	28	28
Total Capital Expenditures	$2,689	$560	$662	$553	$418	$496
KU (b)						
Generating facilities	$440	$82	$108	$114	$61	$75
Distribution facilities	562	109	116	120	109	108
Transmission facilities	573	109	112	126	113	113
Environmental	789	178	237	131	126	117
Other	328	69	106	94	32	27
Total Capital Expenditures	$2,692	$547	$679	$585	$441	$440

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately $86 million for PPL and $67 million for PPL Electric.
(b) The 2017 total excludes amounts included in accounts payable as of December 31, 2016.

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.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2017 with proceeds from the sources noted below.

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

X = Expected funding source.

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Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2016, estimated contractual cash obligations were as follows:

	Total	2017	2018 - 2019	2020 - 2021	After 2021
PPL					
Long-term Debt (a) $					