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Interest expense

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Income taxes

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Net income

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\$

8

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, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2016 Three Months			2015 Three Months		
	Margins (a)	Other (a)	Operating Income (b)	Margins (a)	Other (a)	Operating Income (b)
Operating Revenues	\$323	\$—	\$ 323	\$331	\$—	\$ 331
Operating Expenses						
Fuel	69	—	69	82	—	82
Energy purchases, including affiliate	26	—	26	28	—	28
Other operation and maintenance	11	81	92	10	93	103
Depreciation	7	35	42	4	36	40
Taxes, other than income	1	6	7	1	6	7
Total Operating Expenses	114	122	236	125	135	260
Total	\$209	\$(122)	\$ 87	\$206	\$(135)	\$ 71
			2016 Six Months			2015 Six Months

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	Other Margins (a)		Operating Income (b)	Other Margins (a)		Operating Income (b)
Operating Revenues	\$709	\$—	\$ 709	\$770	\$—	\$ 770
Operating Expenses						
Fuel	147	—	147	185	—	185
Energy purchases, including affiliate	90	—	90	119	—	119
Other operation and maintenance	20	159	179	22	177	199
Depreciation	13	70	83	7	75	82
Taxes, other than income	2	13	15	1	13	14
Total Operating Expenses	272	242	514	334	265	599
Total	\$437	\$(242)	\$ 195	\$436	\$(265)	\$ 171

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(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 periods ended June 30 includes the following results.

	Three Months			Six Months		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating Revenues						
Retail and wholesale	\$404	\$391	\$ 13	\$855	\$873	\$ (18 )
Electric revenue from affiliate	3	5	(2 )	5	8	(3 )
Total Operating Revenues	407	396	11	860	881	(21 )
Operating Expenses						
Operation						
Fuel	113	132	(19 )	233	282	(49 )
Energy purchases	5	5	—	9	9	—
Energy purchases from affiliate	6	8	(2 )	17	30	(13 )
Other operation and maintenance	107	109	(2 )	213	213	—
Depreciation	58	54	4	116	107	9
Taxes, other than income	8	8	—	15	15	—
Total Operating Expenses	297	316	(19 )	603	656	(53 )
Other Income (Expense) - net	1	2	(1 )	(1 )	1	(2 )
Interest Expense	23	19	4	47	38	9
Income Taxes	34	24	10	80	71	9
Net Income	\$54	\$39	\$ 15	\$129	\$117	\$ 12

## Operating Revenue

The increase (decrease) in operating revenue for the periods ended June 30, 2016 compared with 2015 was due to:

	Three Months	Six Months
Base rates	\$ 31	\$ 64
Volumes	(4 )	(40 )
Fuel and other energy prices (a)	(19 )	(42 )
ECR	3	6
Other	—	(9 )
Total	\$ 11	\$ (21 )

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

## Fuel

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Fuel decreased \$19 million for the three months ended June 30, 2016 compared with 2015, due to lower costs of commodities.

Fuel decreased \$49 million for the six months ended June 30, 2016 compared with 2015, due to a \$44 million decrease in commodity costs and a \$5 million decrease in volumes primarily due to milder weather in the first quarter of 2016.

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## Energy Purchases from affiliate

Energy purchases from affiliate decreased \$13 million for the six months ended June 30, 2016 compared with 2015, due to increased generation as a result of Cane Run Unit 7 being placed in-service during 2015.

## Depreciation

Depreciation increased \$4 million and \$9 million for the three and six months ended June 30, 2016 compared with 2015 primarily due to additional assets placed into service, net of retirements.

## Interest Expense

Interest expense increased \$4 million and \$9 million for the three and six months ended June 30, 2016 compared with 2015 primarily due to the September 2015 issuance of \$250 million of incremental First Mortgage Bonds and higher interest rates on the September 2015 issuance of \$250 million of First Mortgage Bonds used to retire the same amount of First Mortgage Bonds in November 2015.

## Income Taxes

Income taxes increased \$10 million and \$9 million for the three and six months ended June 30, 2016 compared with 2015 primarily due to higher pre-tax income.

## Earnings

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Net Income	\$54	\$39	\$129	\$117
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the three month period in 2016 compared with 2015 primarily due to higher base electricity rates effective July 1, 2015, partially offset by higher interest expense.

Earnings increased for the six month period in 2016 compared with 2015 primarily due to higher base electricity rates, effective July 1, 2015, partially offset by higher interest expense and lower sales volumes primarily due to milder weather in the first quarter of 2016.

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.

	Three Months	Six Months
Margin	\$ 30	\$ 36
Other operation and maintenance	3	2

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Depreciation	(3 )	(5 )
Taxes, other than income	—	(1 )
Other income (expense) - net	(1 )	(2 )
Interest expense	(4 )	(9 )
Income taxes	(10 )	(9 )
Net income	\$ 15	\$ 12

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

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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" for the periods ended June 30.

	2016 Three Months			2015 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$407	\$—	\$ 407	\$396	\$—	\$ 396
Operating Expenses						
Fuel	113	—	113	132	—	132
Energy purchases, including affiliate	11	—	11	13	—	13
Other operation and maintenance	15	92	107	14	95	109
Depreciation	6	52	58	5	49	54
Taxes, other than income	—	8	8	—	8	8
Total Operating Expenses	145	152	297	164	152	316
Total	\$262	\$(152)	\$ 110	\$232	\$(152)	\$ 80

	2016 Six Months			2015 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$860	\$—	\$ 860	\$881	\$—	\$ 881
Operating Expenses						
Fuel	233	—	233	282	—	282
Energy purchases, including affiliate	26	—	26	39	—	39
Other operation and maintenance	29	184	213	27	186	213
Depreciation	13	103	116	9	98	107
Taxes, other than income	—	15	15	1	14	15
Total Operating Expenses	301	302	603	358	298	656
Total	\$559	\$(302)	\$ 257	\$523	\$(298)	\$ 225

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

#### Financial Condition

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

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## Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
June 30, 2016					
Cash and cash equivalents	\$492	\$ 35	\$ 16	\$ 8	\$8
Short-term debt	856	6	139	110	29
Notes payable with affiliate	—	—	176	—	—
December 31, 2015					
Cash and cash equivalents	\$836	\$ 47	\$ 30	\$ 19	\$11
Short-term debt	916	—	265	142	48
Notes payable with affiliate	—	—	54	—	—

At June 30, 2016, \$88 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 (a) by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2015 Form 10-K for additional information on undistributed earnings of WPD.

(PPL)

The Statements of Cash Flows separately report the cash flows of the discontinued operations in 2015. The "Operating Activities", "Investing Activities" and "Financing Activities" sections below included only the cash flows of continuing operations.

(All Registrants)

Net cash provided by (used in) operating, investing and financing activities for the six month periods ended June 30, and the changes between periods, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2016					
Operating activities	\$1,170	\$ 328	\$506	\$273	\$311
Investing activities	(1,347 )	(427 )	(439 )	(237 )	(201 )
Financing activities	(152 )	87	(81 )	(47 )	(113 )
2015					
Operating activities	\$970	\$ 76	\$703	\$389	\$360
Investing activities	(1,575 )	(483 )	(626 )	(349 )	(275 )
Financing activities	(71 )	221	(85 )	(43 )	(90 )
Change - Cash Provided (Used)					
Operating activities	\$200	\$ 252	\$(197)	\$(116)	\$(49)
Investing activities	228	56	187	112	74
Financing activities	(81 )	(134 )	4	(4 )	(23 )



Operating Activities

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2016 compared with 2015 were as follows.

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	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ 162	\$ 37	\$ 27	\$ 8	\$ 12
Non-cash components	(250 )	82	(43 )	(23 )	2
Working capital	308	117	(211 )	(100 )	(88 )
Defined benefit plan funding	65	33	18	9	6
Other operating activities	(85 )	(17 )	12	(10 )	19
Total	\$ 200	\$ 252	\$ (197)	\$ (116)	\$ (49)

## (PPL)

PPL's cash provided by operating activities from continuing operations in 2016 increased \$200 million in 2016 compared with 2015.

Income from continuing operations increased by \$162 million between the periods, but included a decrease in net non-cash charges of \$250 million. These net non-cash charges included a \$254 million increase in unrealized gains on derivatives.

The \$308 million increase in cash from changes in working capital was primarily due to an increase in taxes payable (primarily due to an increase in current income tax expense in 2016) and a decrease in accounts receivable, primarily due to milder winter weather in 2016.

Defined benefit plan funding was \$65 million lower in 2016.

## (PPL Electric)

PPL Electric's cash provided by operating activities in 2016 increased \$252 million in 2016 compared with 2015.

The increase in non-cash components of \$82 million in 2016 compared with 2015 was primarily due to an increase in deferred income tax expense and depreciation.

The \$117 million increase in cash from changes in working capital was primarily due to a decrease in prepayments (primarily due to a decrease in tax payments) and an increase in taxes payable (primarily due to an increase in current income tax benefit in 2016).

Defined benefit plan funding was \$33 million lower in 2016.

## (LKE)

LKE's cash provided by operating activities in 2016 decreased \$197 million compared with 2015.

The decrease in cash from 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 coal and natural gas inventories due to milder weather in 2016, and unbilled revenues due to lower weather volatility during the measurement periods in 2016, partially offset by lower payments on accounts payable due to lower fuel purchases.

## (LG&amp;E)

LG&E's cash provided by operating activities in 2016 decreased \$116 million compared with 2015.

The decrease in cash from working capital was driven primarily by lower payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to accounts receivable and coal and natural gas inventories due to milder weather in 2016, and unbilled revenues due to lower weather volatility during the measurement periods in 2016, partially offset by lower payments on accounts payable due to lower fuel

purchases.

(KU)

KU's cash provided by operating activities in 2016 decreased \$49 million compared with 2015.

The decrease in cash from working capital was driven primarily by lower payments received from LKE for the use of prior year excess tax depreciation deductions. Other decreases in cash were related to coal inventory due to milder weather in 2016, and unbilled revenues due to lower weather volatility during the measurement periods in 2016, partially offset by lower accounts payable from affiliates due to energy purchases from LG&E and charges for prepaid costs from LKS.

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## Investing Activities

(All Registrants)

## Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the registrants. The change in expenditures for PP&E for the six months ended June 30, 2016 compared with 2015 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease	\$333	\$ 56	\$191	\$ 112	\$78

For PPL, the decrease in expenditures was due to lower project expenditures at WPD, PPL Electric Utilities, LG&E, and KU. 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 PPL Electric was primarily due to the completion of the Susquehanna-Roseland transmission project and the completion of the Northeast Pocono reliability project. 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.

## Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2016 compared with 2015 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$248	\$—	\$—	\$—	\$—
Settlement of cross-currency swaps	46	—	—	—	—
Stock issuances/redemptions, net	(7 )	—	—	—	—
Dividends	(13 )	(10 )	—	(3 )	(32 )
Capital contributions/distributions, net	—	40	12	27	20
Change in short-term debt, net	(342 )	(162 )	(112 )	(27 )	(10 )
Notes payable with affiliate	—	—	105	—	—
Other financing activities	(13 )	(2 )	(1 )	(1 )	(1 )
Total	\$(81 )	\$(134 )	\$ 4	\$ (4 )	\$(23)

See Note 7 to the Financial Statements in this Form 10-Q for information on 2016 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2015 Form 10-K for information on 2015 activity.

## Credit Facilities

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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 June 30, 2016, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

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## External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,150	\$ —	\$ 337	\$ 813
PPL Electric Credit Facility	400	—	7	393
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	110	390
KU Credit Facilities	598	—	227	371
Total LKE	1,173	—	337	836
Total U.S. Credit Facilities (a)	\$ 2,723	\$ —	\$ 681	\$ 2,042
Total U.K. Credit Facilities (b)	£ 1,055	£ 269	£ —	£ 786

The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its (a) affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 11%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.

The amounts borrowed at June 30, 2016 were a USD-denominated borrowing of \$200 million and (b) GPB-denominated borrowings which equated to \$191 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £138 million as of the date borrowed. At June 30, 2016, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.1 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 13% of the total committed capacity.

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

## Intercompany (LKE, LG&amp;E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 176	\$ —	—\$ 49
LG&E Money Pool (a)	500	—	110	390
KU Money Pool (a)	500	—	29	471

LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make (a) available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

However, the FERC has issued a maximum short-term debt limit for each utility at \$500 million from any source.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

## Commercial Paper (All Registrants)

PPL, 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

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Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at June 30, 2016:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 320	\$ 680
PPL Electric	400	6	394
LG&E	350	110	240
KU	350	29	321
Total LKE	700	139	561
Total PPL	\$ 2,100	\$ 465	\$ 1,635

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Long-term Debt

(PPL)

In May 2016, PPL Capital Funding issued \$650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of \$645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new ten-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire \$460 million principal amount of its 3.90% Senior Notes upon maturity.

(PPL and PPL Electric)

In March 2016, the LCIDA issued \$116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and \$108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. The proceeds of the bonds were used to redeem \$116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and \$108 million of 4.75% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued \$224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

(PPL)

ATM Program

For the three and six months ended June 30, 2016, PPL did not issue any shares under the agreements. For the three and six months ended June 30, 2015, PPL issued 421,700 shares of common stock under the program at an average price of \$33.73 per share, receiving net proceeds of \$14 million.

Common Stock Dividends

In May 2016, PPL declared a quarterly common stock dividend, payable July 1, 2016, of 38 cents per share (equivalent to \$1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. In the second quarter of 2016, PPL decreased its projected capital spending for the period 2016 through 2020 related to distribution facilities by approximately \$1.1 billion from the \$9.5 billion projection previously disclosed in PPL's



2015 Form 10 K. The decreased projected capital spending results from a change in the forecasted GBP to U.S. dollar exchange rate from \$1.60 to \$1.30 for WPD expenditures that decreased each yearly estimate by approximately \$220 million.

#### Contractual Obligations

In the second quarter of 2016, PPL decreased its estimated contractual cash obligations by approximately \$1.7 billion from the \$39.1 billion estimate previously disclosed in PPL's 2015 Form 10-K. The decrease was primarily a result of the change in the GBP to U.S. dollar exchange rate from \$1.50 to \$1.34 as of June 30, 2016 for WPD's obligations. The decreases in PPL's estimated contractual cash obligations by year were as follows.

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	Total	2016	2017 2018	2019 2020	After 2020
Total Change in Contractual Cash Obligations	\$(1,700)	\$(30)	\$(81)	\$(98)	\$(1,491)

## Rating Agency Actions

## (All Registrants)

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

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

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2016:

## (PPL)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Capital Funding's \$1.0 billion commercial paper program.

In May 2016, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$650 million 3.10% Senior Notes due 2026.

In June 2016, S&P assigned a long-term issuer rating of A- and a short-term issuer rating of A-2 to PPL Capital Funding.

## (PPL Electric)

In February 2016, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$400 million commercial paper program.

In February 2016, Moody's and S&P assigned ratings of A1 and A to LCIDA's \$116 million 0.90% Pollution Control Revenue Refunding Bonds due 2029 and \$108 million 0.90% Pollution Control Revenue Refunding Bonds due 2027, issued on behalf of PPL Electric.

## Ratings Triggers

## (PPL, LKE, LG&amp;E and KU)

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Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at June 30, 2016.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2015 Form 10-K.

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## Risk Management

## Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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

## Interest Rate Risk

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

The following interest rate hedges were outstanding at June 30, 2016.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	\$ 802	\$ 93	\$ (103 )	2028
Economic hedges				
Interest rate swaps (d)	179	(56 )	(2 )	2033
LKE				
Economic hedges				
Interest rate swaps (d)	179	(56 )	(2 )	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	179	(56 )	(2 )	2033

(a) Includes accrued interest, if applicable.

Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset (b) becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

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Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated (c) senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at June 30, 2016 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at June 30, 2016 is shown below.

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	10%
	Adverse
	Movement
	in Rates
PPL	\$ 660
PPL Electric 139	
LKE	177
LG&E	66
KU	99

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at June 30, 2016.

Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b) £ 1,731	\$ 393	\$ (220 )	2018

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

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

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

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

Volumetric Risk

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO - ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2015 Form 10-K for additional information on revenue recognition under RIIO - ED1.

PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

#### Credit Risk (All Registrants)

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2015 Form 10-K for additional information.

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Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$199 million for the six months ended June 30, 2016, which primarily reflected a \$398 million decrease to PP&E and \$95 million decrease to goodwill partially offset by a decrease of \$294 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$149 million for the six months ended June 30, 2015, which primarily reflected a \$299 million decrease to PP&E and \$77 million decrease to goodwill partially offset by a decrease of \$227 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions (All Registrants)

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures (All Registrants)

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

Environmental Matters (All Registrants)

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

See Note 10 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- Coal Combustion Residuals,
- Effluent Limitations Guidelines,
- Mercury and Air Toxics Standards,
- National Ambient Air Quality Standards, and
- Superfund and Other Remediation.



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Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2015 Form 10-K for additional information on environmental matters.

### New Accounting Guidance (All Registrants)

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

### Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and

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Analysis of Financial Condition and Results of Operations" in the Registrants' 2015 Form 10-K for a discussion of each critical accounting policy.

	PPL				
	PPL	Electric	LKE	LG&E	KU
Defined Benefits	X	X	X	X	X
Loss Accruals	X	X	X	X	X
Income Taxes	X	X	X	X	X
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Price Risk Management	X				
Regulatory Assets and Liabilities	X	X	X	X	X
Revenue Recognition - Unbilled Revenue		X	X	X	X

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2016, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

• "Item 3. Legal Proceedings" in each Registrant's 2015 Form 10-K; and  
• Notes 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2015 Form 10-K except the following:

(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

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binding on the IRS. Accordingly, the IRS could reach conclusions that are different from those in the legal opinion. If, notwithstanding the receipt of such legal opinion, the IRS were to determine the distribution to be taxable, 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 legal opinion, if the IRS were to determine the merger to be taxable, PPL shareowners may, depending on their individual circumstances, recognize a tax liability that could be material.

In addition, the spinoff will be taxable to PPL pursuant to Section 355(e) of the Code if there is a 50% or greater change in ownership (by vote or value) of either PPL or Talen Energy, 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 subsequent combination, the combination alone will 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, 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.

On June 2, 2016, Talen Energy entered into a merger agreement with affiliates of Riverstone, pursuant to which a subsidiary of affiliates of Riverstone will merge with Talen Energy (the "Talen Merger"). Upon completion of the Talen Merger, which is subject to certain closing conditions, affiliates of Riverstone will convert their existing ownership of approximately 35% of the issued and outstanding common stock of Talen Energy into shares of the surviving corporation and each other share of Talen Energy common stock, subject to certain exceptions, will be cancelled and converted into the right to receive the cash merger consideration. Pursuant to the Separation Agreement entered into in consideration with the spinoff, receipt of a legal opinion of tax counsel to the effect that the spinoff will continue to qualify as a reorganization pursuant to Section 368(a)(1)(D) and a tax-free distribution pursuant to Section 355 of the Code following the completion of the Talen Merger shall be required to complete the Talen Merger. As described above, such legal opinion will not be binding on the IRS and accordingly, the IRS could reach conclusions that are different from those in the legal opinion. If, notwithstanding the receipt of such legal opinion, the IRS were to determine the distribution to be taxable, PPL and its shareowners could, depending on circumstances, recognize a tax liability that could be substantial.

Risks related to our U.K. segment

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 whether formal withdrawal will occur and the nature and duration of negotiations between the U.K. and European Union as to the terms of any withdrawal. PPL cannot predict either the short-term impact on foreign 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 European Union, although such impacts could be significant.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

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The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [ ] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 25, 2016 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- \*4(a) - Amendment No. 12 to PPL Employee Stock Ownership Plan, dated April 27, 2016
- \*4(b) - Amendment No. 13 to PPL Employee Stock Ownership Plan, dated May 13, 2016  
Supplemental Indenture No. 15, dated as of May 17, 2016, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2016)
- 4(c) -

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- Second Amendment to Revolving Credit Agreement, dated as of March 17, 2016, to the March 26, 2014
- \*10(a) -Existing Credit Agreement, between PPL Capital Funding, Inc., the Borrower, PPL Corporation, the Guarantor, and The Bank of Nova Scotia, as the Administrative Agent and as a Lender
  - 10(b) -£100,000,000 Term Loan Agreement, dated May 24, 2016, between Western Power Distribution (East Midlands) PLC and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
  - \*12(a) -PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
  - \*12(b) -PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
  - \*12(c) -LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
  - \*12(d) -Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
  - \*12(e) -Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2016, filed by the following officers for the following companies:

- \*31(a) -PPL Corporation's principal executive officer
- \*31(b) -PPL Corporation's principal financial officer
- \*31(c) -PPL Electric Utilities Corporation's principal executive officer
- \*31(d) -PPL Electric Utilities Corporation's principal financial officer
- \*31(e) -LG&E and KU Energy LLC's principal executive officer
- \*31(f) -LG&E and KU Energy LLC's principal financial officer
- \*31(g) -Louisville Gas and Electric Company's principal executive officer
- \*31(h) -Louisville Gas and Electric Company's principal financial officer
- \*31(i) -Kentucky Utilities Company's principal executive officer
- \*31(j) -Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2016, furnished by the following officers for the following companies:

- \*32(a) -PPL Corporation's principal executive officer and principal financial officer
- \*32(b) -PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- \*32(c) -LG&E and KU Energy LLC's principal executive officer and principal financial officer
- \*32(d) -Louisville Gas and Electric Company's principal executive officer and principal financial officer
- \*32(e) -Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS -XBRL Instance Document
- 101.SCH -XBRL Taxonomy Extension Schema
- 101.CAL -XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF -XBRL Taxonomy Extension Definition Linkbase
- 101.LAB -XBRL Taxonomy Extension Label Linkbase
- 101.PRE -XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation  
(Registrant)

Date: August 9, 2016 /s/ Stephen K. Breininger  
Stephen K. Breininger  
Vice President and Controller  
(Principal Accounting Officer)

PPL Electric Utilities Corporation  
(Registrant)

Date: August 9, 2016 /s/ Marlene C. Beers  
Marlene C. Beers  
Controller  
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC  
(Registrant)

Louisville Gas and Electric Company  
(Registrant)

Kentucky Utilities Company  
(Registrant)

Date: August 9, 2016 /s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)